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# SOCIAL RESEARCH

An International  
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NOVEMBER · 1937

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VOLUME FOUR · NUMBER FOUR





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# PLANNING IN ELECTRICITY

BY HANS STAUDINGER

## I

BEFORE dealing with the problems of public planning in electricity I should mention those governmental measures which are not planning.

Since usually all state interference within the sphere of business is designated as government planning policy, the measures by which the public commissions control and regulate electric public utilities are also likely to be regarded in this way. These measures, however, mean no more than the artificial restoration of the free market price mechanism. They attempt to protect consumers from monopolistic exploitation in rates and from discrimination with regard to the quality and steadiness of supply. In principle the policy of regulation and control objects to proposed rates only if there is no justified relation between prices and costs, and in fixing prices it always gives due consideration to the interests of the capital investors, with special regard for the necessary attraction of new capital.<sup>1</sup>

The means of control vary widely within each country and among the countries, according to the special legal conditions, the general public opinion concerning property rights and the general economic policy of the ruling authorities. They range from the contract system through franchises, special taxation,

<sup>1</sup> The new American Public Utility Holding Law, in its first and main part, is a child of regulation policy. It strives to protect the investors, the shareholders, against managerial and financial exploitation. Indirectly, to be sure, overfinancing in the pyramid system (watering of stocks) hinders the downward adjustment of rates and thereby injures also the consumer interests. In the last depression, for example, the liquid reserves of operating companies had to be drawn upon in order to meet the bond obligations of the various strata of the pyramids, and this crippling burden of interest obligations did not correspond to real assets. The second part of the law, however, certainly has to do with the other kind of policy, the new beginning of planning in electricity.

direct control of rate structures by commissions, up to the extreme of taking over private companies in public management.

It has frequently been declared that the goals of planning policy can be better and more quickly reached by an improved control policy, but this assertion is in itself contradictory and untenable. In electricity these two policies are of quite different character, and have quite different ends. Primarily, planning policy has a larger scale of application. It involves, in capitalist countries, governmental interference in the production and distribution of the separate operating companies. It has developed because separate electrical production and distribution enterprises, whether private or public, are unable to carry out certain demands of consumption and cannot sufficiently satisfy general economic or social requirements—according to the judgment of the authorities and political powers. Individual private electrical enterprises are usually unable to make full use of technical progress without hurting their dominant profit interests; single municipal units must often refuse, in the interests of their own city consumers, to provide electricity to neighboring rural districts or to the more thinly settled suburbs. Thus, while a policy of control and regulation intervenes only with respect to the relations of cost and prices within the single electrical enterprises, a planning policy intervenes with respect to questions of general social and technical efficiency in order to protect neglected consumer groups or districts from the inadequacies of single electrical units, whether privately or publicly owned. Planning measures may change the data of demand and supply in the single enterprises, and moreover they often demand considerable public business activity in addition to the existing publicly owned electrical enterprises.

## II

In all modern capitalistic countries planning measures have been introduced, but, according to the different aims of planning, these measures vary in extent and vary also in the degree to which the

individual electrical units have been drawn into the program.<sup>1</sup>

The first and most obvious aim of planning in electricity is to increase general economic productivity by integrating the electrical units with regard to production and distribution (the Grid system in England; the integrated system in Germany; the second part of the Public Utility Holding Law in the United States). A second incentive to planning in electricity is the general policy of developing and protecting natural resources (Tennessee Valley Administration, Boulder Dam, etc. in the United States; Saale Talsperre, Speicherwerk, or water storage, Waldeck, etc. in Germany). Closely connected with this policy is a third reason for

<sup>1</sup> It may be useful for the later discussion if I mention now the various types of economic organization in the electric industry. Usually only two types are distinguished, according to difference in ownership: the private and the public enterprises. Further distinctions are desirable, however, which will also take into account the aims of the management. Thus six types may be differentiated. First, the private district company and the private holding company, operating on the profit principle. Second, the municipal district company and the municipal holding company (in Germany, for example, the Vereinigte Elektrizitätswerke Westphalens), operating for fiscal aims and therefore similar in their management to the first type. Third, existing especially in Central Europe, the district and holding companies under mixed private and public ownership (in Germany, for example, the Rheinisch-Westphälische Elektrizitätswerk); these enterprises on the one hand pursue general economic goals and on the other hand try to realize a sufficient profit to be able to issue loans on the capital market and to meet their bond obligations. Fourth, the communal municipal district company pursuing local service goals. Fifth, the independent planning corporation or administration which provides itself with the necessary capital, issuing loans on the capital market, and is thus similar in operation to the third type, the mixed companies. Sixth, the planning administration which, in pursuing a long-run policy (such as rural electrification) may disregard resultant present losses. As to the principles of management, private utility enterprises are guided by the profit motive; municipal utilities are guided partly by a similar purpose — the fiscal interest — and partly too by the goal of providing the best possible supply to the consumers in their own limited districts; planned utilities strive toward general service goals, but they too operate with consideration for rational economic efficiency. Thus the economic principle governs planned utilities as well as private and independent public utilities, even though toward other ends. The holding companies, private, public and mixed, are especially subject to the planning policy, which strives to bring about integrated holding systems. It is understandable that this process is resisted by the private enterprises, and also by the public enterprises which operate for fiscal purposes; the communal municipal utilities, however, and even the independent planning companies — if their existence is endangered — also often take a stand against a new progressive planning policy.

planning: the general economic policy which aims to influence the business cycle. Thus it is attempted to build dams and develop national resources not only for reasons of conservation but also for broader economic motives—in times of depression, in order to occupy large numbers of unemployed, and in times of wavering prosperity, in order to stimulate other business by big orders and increase consumption power through increased employment (for example, the proposals for building up seven T.V.A.'s in the United States). The fourth main purpose of planning economy is the nationalistic economic policy of autarchy. In electricity this means such measures as developing the use of a special type of coal or saving coal for other purposes, even if the nation is thereby burdened with high capital obligations and higher prices, that is, ultimately, a decrease in the present purchasing power of the masses (the development in Italy, in the eastern European states, in present-day Germany). Closely connected with this policy is governmental interference in electrical development for purely military reasons.

In the various countries it is the special combinations of these four main goals<sup>1</sup> of planning in electricity which determine the extent and the special characteristics of the different planning systems. Thus, for example, Germany began to undertake electric planning even before the World War, in the course of developing natural resources; by improving the canal system and navigation she was able to utilize waterpower for electricity. After the war the scarcity and increased cost of coal stimulated a further development of waterpower, and technical progress in electricity was made full use of in order to promote the highest possible economic efficiency. Eventually it was necessary, through active governmental interference, to integrate the geographically unified systems. This was in turn an incentive for opening up new water resources, so that finally the coal fields in the north were interconnected

<sup>1</sup> Planning policy is also motivated, of course, by other special goals, such as special care for distressed areas, or for certain politically and economically significant occupations (farmers' interests).

with the waterpower in the south. Thus one aim of governmental planning activity brought forward another, and in interaction they shaped a complete planning system. During and shortly after the war military reasons also played a considerable part in the state policy of constructing huge power plants and creating an integrated organization of distribution. Likewise, in all the old and new European countries the increasing efforts after the war to establish integrated national electric systems were based on a combination of several factors: state policy for economic restoration, for transformation of a war economy into a peace economy, the development of natural resources, and finally the rise of nationalism. In the end the establishment of integrated systems of electricity became a national duty.

There is hardly any need to stress the fact that economic goals are very often tied up with non-economic. It is not the task of this article to analyze whether non-economic factors are themselves the product of changes in technique or of other changes within the economic structure, but regardless of their origin their importance should not be slighted. In the United States, for example, it is my opinion that President Roosevelt's conception of a large social policy aiming at a general rise of the standard of living is the principal motivation behind the governmental planning activities in electricity. The measures for developing natural resources, for helping distressed areas, for decreasing the number of unemployed and increasing purchasing power, for settling new industries—all those measures mentioned in the second part of the new Public Utility Holding Law—aim at a unified planning policy which can provide the whole country with cheap electricity. President Roosevelt's utterances on this goal are clear: this life necessity, electricity, should be made available in the shacks of the poorest tenants, even if it means higher rates in the thickly settled districts or greater costs for the taxpayers in general.

These "social" aims, based on ethical ideas, coincide to a large extent with economic aims (the main purposes of planning, mentioned above, serve a social program as well as a purely economic

one; public works not only ease the social burden of unemployment but also increase consumption power and thus stimulate the market). They may also, however, entail a present disregard of purely economic advantages in the interest of the people's ultimate welfare. It is defensible for a planning policy to produce and distribute certain goods with the help of a subsidy, at least for a time. (We are familiar with planned subsidizing for purely economic ends, as in the field of trade policy, where large groups of industries are subsidized by protective duties.)

When a planning policy in electricity is established new economic and political problems arise, and often huge political controversies. The very starting of planning activity requires extension of the administration; extended planning necessarily creates a new administrative bureaucracy, with the tendency, inherent in all bureaucracies, to expand the realm of its authority. The problem of centralization and decentralization arises once more; even if the planning body decentralizes certain of its administrative functions, a high degree of centralization is unavoidable, and it is often necessary to disregard political (state or provincial) boundaries in the establishment of new electrical districts (the new distribution districts in England and now, in the United States, the project of seven T.V.A.'s). Furthermore, if the planning policy involves not only administrative measures but also the founding of government production and distribution enterprises, more and more productive factors come under public command, and this means an expansion of the state's economy.

### III

An important aspect of planning policy is the competitive pressure that can be exerted by planned activities. Thus the recent planning policy of the United States has created the so-called yardstick policy, which uses the cost of a model enterprise as the norm for electrical rates. As J. M. Clark has said: "The yardstick is a result of justifiable dissatisfaction with regulation subject to tradition-bound judicial standards which operate to deprive com-

missions of the reasonable margin of discretion which properly belongs to them. Unless this discretion can be achieved, the demand for yardsticks will persist, despite their potential defects and dangers."<sup>1</sup>

There are great difficulties in setting up a governmental yardstick which can serve as a dependable guide in competition. To use again the words of J. M. Clark: "The question is complicated by the allocation of costs of hydroelectric plants between electricity, flood control, and conjectural benefits to navigation. Here there is great opportunity for shifting costs without the possibility of adequate scientific checks. And the possibility of basing rates on expected future costs, reduced by expected future increases in consumption, opens up other vistas in which a public enterprise can indulge its prophetic talents without the checks to which private enterprise is subject. This is especially true of a hydroelectric plant with capacity far beyond existing effective demand."<sup>2</sup>

When dams are thus used for various purposes the problem of allocation may sometimes be roughly solved in practice by charging construction costs to navigation and flood control (since often, as for example in the Tennessee Valley constructions, these dams were not from the beginning intended to be used also for electricity), and by considering as costs of electricity only the costs of additional construction (such as supplementary dams and power houses) which may be needed to use the dams for this purpose. But in all cases these latter costs are smaller than they are when dams are erected only for hydroelectric generation; moreover, a dam built primarily for electricity would usually demand a different site and somewhat different construction. Therefore yardstick figures cannot be derived from dams used for various purposes; also it is not justifiable to derive them from a single construction built primarily for electricity. Only on the basis of the average figures for comparable dams built primarily for elec-

<sup>1</sup> J. M. Clark, "The Possibility of a Scientific Electrical Rate System" in *American Economic Review*, vol. 27, no. 1, supplement (March 1937) p. 253.

<sup>2</sup> *Ibid.*, p. 252.

trical use can experience develop yardstick figures of practical significance.

Even in this case the cost structure of government construction has certain peculiarities which must be considered in computing for a yardstick. The government can usually borrow at a cheaper rate, and has a special advantage in times of depression, when private business is unable to issue bonds and carry the risk. Private business cannot, like the government, utilize the time of cheapest construction prices and lowest interest rates. In times of depression the government can take the risk of constructing over-capacities and of setting up a long-run account, because public works serve also other purposes, such as occupying the unemployed and stimulating business by orders of materials and equipment.

I do not oppose the yardstick scheme in principle, but it must be guarded against a mistaken interpretation which would base it on special costs and conditions. The interested public should be informed concerning all necessary details so that it can understand the cost basis on which the rates are estimated.

In the case of T.V.A. the policy of yardstick competition has been highly effective. Not only were the single rates lowered, but the whole rate structure was transformed, especially with regard to the rural consumers. In defense the competitive electrical concerns created a new type of rates in order to stimulate consumption, thereby improving their load curves and lowering production costs. These so-called progressive rates, although unsocial in their basic structure,<sup>1</sup> increased the yearly consumption of certain ranks of consumers by thirty, forty, fifty per cent, and—a result astonishing to the public—the income of the operating companies increased from year to year in spite of the lower rates. Here the yardstick policy was successful in setting up a new rate standard,

<sup>1</sup> Cf. Hans Staudinger, "Social Rates in Electricity" in *Social Research*, vol. 3, no. 3 (August 1936) pp. 259-81. European companies, even the private utilities, have shown considerable interest in social rates, but in the United States the private companies are deterred because their risk would certainly be higher than with progressive rates. Even the advocates of public companies, however, show little interest in the use of social rates in this country, in spite of the fact that these rates would do much to justify public ownership.

but the attempt could fail if the rates were set too low. In this case the other electric units, if they reduced their rates to meet the competitive pressure, could not meet their capital obligations and would cease to function.

## IV

This brings up one of the most delicate problems of electrical planning policy: whether it is possible to find a synthesis between planned electrical economy, governed by authoritatively determined social-economic aims, and unplanned electrical economy, governed by the profit principle.

Planning policy does not and often should not strive to balance costs with immediate income. Present losses in the single managerial unit, provided they are not caused by bad management and wrong investment, may mean eventual improvement in general economic conditions, and can justifiably be covered by taxation. Thus municipal electric utilities often renounce fiscal profits and incur justifiable deficits. Comparisons of prices and rates (I do not speak here of cost comparisons) between public and private business are wrong in principle, and seriously mislead both public and politicians. Private utilities often declare that publicly owned utility rates are too high—high only because of the special nature of the demand (thinly settled districts); government officials often praise public management as characterized by a generally lower rate level—lower only because of a justified disregard for fiscal profits.

Certainly the coexistence of two different kinds of electrical economies involves great difficulties and often leads to serious frictions. A planned dam system, for example, constructed during a depression, serving various purposes from improvement of the labor market to the regulation of navigation, will provide new electrical capacities at a time when other private and public electrical units are already in a state of overcapacity. But in spite of all such problems I believe that a practical solution, coordinating planning interests and capitalistic interests, is possible.

The presupposition for solution is a mutual understanding, a comprehension of the fact that throughout the present capitalistic world there are already two different electrical economies which, although they have to work under quite different principles, must be coordinated in one electrical system. Certainly, as experience has shown in England and Germany, the necessary integration, especially the concentration of consumption centers, will seldom be achieved without strong administrative and legal pressure. But legal pressure must be accompanied by reasonable collaboration. Such a project as the furtherance of rural electrification by means of governmental subsidies, or by a new distribution of the additional production costs to the debt of urban consumers, can be efficiently carried out only in mutual understanding. The all important question of unifying rate structures can be solved only by close cooperation between the two electric economies. And there are many other questions—concerning such matters as capital investment, the pace of increasing power stations (both hydroelectric and steam plants), the building up of interconnection systems—which cannot be solved by authoritarian pressure alone, but require mutual understanding and good will.

To achieve this understanding the representatives of the planning economy—the governmental administration—must acknowledge that in the part of the system which is managed by independent private units the business of supplying electricity has to make a profit. Therefore profitmaking in this part must be respected by all the planning measures and all the official utterances. Otherwise planning measures will hurt the efficiency of the whole electrical system. Public opinion will not understand the justified ends of planning policy if its methods of operation lead to constant frictions with the private interests. Necessary capital investment in the private sector might be endangered, and smaller operating companies might be unable to find loans on adequate conditions for the urgent expansion made necessary by the recent tremendous growth of demand; this would then cause a new concentration wave within large concerns, or a new over-

whelming influence of financial groups. In general, the low standing of utility stocks, which is not at all in keeping with the operating companies' relatively high increase of net income, can be explained only by the general uncertainty concerning the further operation of planning policy.

On the other hand, the representatives of the private economy must realize that in this field of public utilities the striving for profits has to be limited. In England, and also in other countries, the conviction is growing that the profit margin can and should be limited by fixing dividends in proportion to the price of electricity. Electric enterprises—assuming that there is sound investment and no watering of stock—have relatively low capital risks and, even in times of depression, relatively consistent capital rewards, so that the shares have the quality of bonds. One of the most interesting features of the Third World Power Conference in Washington (1936) was the fact that representatives of private international concerns suggested a more or less international agreement about limiting profits in electricity.

## v

In the scope of a brief article I can mention only a few of the efforts that have been made in solving this omnipresent problem of coordinating two different kinds of electric economy. I shall concentrate on Germany and England, for it is in those countries that the development has gone farthest.

In Germany the decade following the World War produced a relatively easy and rapid coordination between the purposes of governmental planning and the interests of the large operating units, integrated in holding companies. Strong administrative pressure was needed, to be sure, but the development was facilitated by the fact that from an early date the government—Reich, states and municipalities—had itself participated in the electric industry. In the development of technical progress and efficiency large holding groups were formed, owned totally or partly (as in the Rheinisch-Westphälische Elektrizitätswerk) by Reich, states

and municipalities. These groups constructed great hydroelectric and steam power stations, and the skeleton of an extensive high tension network; in a voluntary association (*Aktiengesellschaft für die Deutsche Elektrizitätswirtschaft*) they undertook to plan the most efficient construction and distribution system, from the big power plant to the last consumer's lamp. The difficulties in this development emanated mostly from the district companies. Especially the municipally owned operating units, for fiscal reasons or in order to protect their independence, often obstinately resisted the process of amalgamation.

Nevertheless, in order to build up the consumption centers a new legal foundation became inevitable. In 1933 the leaders of the large Reich, state and mixed companies—following the principles of the former republican planning policy—proposed a division of the entire German electric system into four large districts. The existing power stations of public or mixed ownership were to constitute the centers of further development. The district-private and also the municipal units were to be amalgamated and brought under unified technical management.

To avoid more radical measures by the National Socialist party Dr. Schacht—again in line with the former planning policy—enacted a new law for the development of the power economy (December 13, 1935). The main purpose of this law is the centralized control of the whole power system. The electrical units are compelled regularly to inform the controlling and planning body of their essential business activities. Their projects of construction—extension and improvements of plants, distribution lines, etc.—are subject to the approval of the controlling body, headed by the Reich Minister of Economics. For final approval not only economic reasons are decisive but also military and internal political reasons, and thus, with regard to new projects, the Reich Minister of Interior and the Reich Minister of War must also be consulted. They can object to projects and forbid them if they believe a general public interest, economic or political, is jeopardized. The law deals also with the self-producers

of electricity (coal mines, large factories, etc.), obliging them to obtain from the planning body permission to sell their surplus product to other consumers. If they enlarge their production they are obliged to announce their intentions to the electric companies of their district early enough so that negotiations can take place on the question whether these companies are able to take over the new supply. By this technical-economic control of construction the whole system can be integrated; the small companies, the municipal islands and the self-producers have no possibility to expand, but are obliged to amalgamate with the large consumption centers.

The law intervenes also with regard to rates. The rates and the general delivery conditions have to be published, and the companies are obliged to supply everyone according to these schedules.<sup>1</sup> Moreover, the controlling body is empowered to change the conditions of delivery and even the rates, in order to render them more economic. "Economic" in this case, according to the commentary,<sup>2</sup> means in correspondence with the costs, allowing a due additional amount for amortization and for normal profits. In this way the planning body, on the basis of normal consumption, is able to unify rates, to create a descending rate structure which stimulates consumption, and to introduce the "social rates" scheme, which is the most favorable system from the social point of view—but it has to take into account the necessary profitability of the single electric units. The commentary frequently stresses the fact that the private and the independent public utilities are not to be abolished but are to be guided and assisted in the common public interest. Thus the law strives to set a certain limitation to interference and to make possible some degree of collaboration between the planning system and the operating holding concern.

<sup>1</sup> According to a special regulation of the law any company which is not able to fulfil its obligation of economic supply can be taken over in public ownership, or its management may be transferred wholly or partly to other companies.

<sup>2</sup> *Energiewirtschaftsgesetz Kommentar* by Darge, Melchinger and Rumpf (1936) pt. 1.

It is in this general way that the law describes the far-reaching and decisive functions of the planning body. Since electric planning has to deal with the country as a whole, the head of the planning body must naturally be the politically responsible Reich Minister of Economics; the staff of the planning system, however, is connected not with the ministry or other administrative bodies, but with the power group (Reichsgruppe Energiewirtschaft) of the Third Reich's corporative system.<sup>1</sup> This group is subdivided into two sections: the economic group of electricity (Wirtschaftsgruppe der Elektrizitätsversorgung), and the economic group of gas and water supply. The Reich Minister of Economics has delegated to the power Reichsgruppe nearly all the functions of control and supervision which the law has given him. The leader of this group is assisted by an appointed council which he has to consult, especially with regard to the appointment and the functions of the permanent commissions. These commissions (there are at present commissions for electro-technical questions, for statistics, for rates, for legal and publicity questions and for rural electrification), are made up of industrial experts, managers and engineers, and it is in them that the actual decisions are prepared. A permanent administrative bureaucracy for current activities carries out the decisions and gives legal and technical advice to the companies or to the corporative economic groups. This staff also collects the legally required information from the companies.

Regional sections of the economic subgroup electricity are concerned especially with such important questions as distribution,

<sup>1</sup> According to the law of the organic constitution of German industry (February 24, 1934) and the exact execution decrees of November 27, 1934, the whole of German industry is divided into six principal corporative Reichsgruppen: industry, handicraft, commerce, banking, insurance and power. Each of these corporative Reichsgruppen is further subdivided into Wirtschaftsgruppen, or economic groups, and in a few cases into smaller sections and professional subgroups. To meet the local demands of industrial organization there is also a geographically subdivided corporative system (regional sections). The entire economic hierarchy, with compulsory membership of all persons in business and industry, is under the supervision of the Reich Minister of Economics, who is assisted by an economic Reich Chamber.

examination of rates, propaganda, sales problems. Finally, in addition to the economic subgroup electricity there is the formerly free association of electric companies (Reichsverband der Elektrizitätsversorgung), which now exists mostly as the representative of German electricity in international associations and institutions.

It is in the nature of the corporative system that the responsible leader must always give the final decision; there is no legal possibility of appeal from the decisions of the Minister of Economics or from those of his delegate, the leader of the power Reichsgruppe. Furthermore, the companies have no legal claim for indemnities if their need for extensions is refused or even if whole plants are taken over because of mismanagement. Indemnities are provided only in cases where military needs necessitate further expansions or other costly obligations. In effect the leader of the power Reichsgruppe governs the entire electrical planning system, and balances the competition between electricity and the gas, oil and coal interests.

The present intentions of the German planning policy are still more radical. They have been outlined in a programmatic speech by Carl Krecke,<sup>1</sup> who is the present leader of the power Reichsgruppe. Krecke declared that the demand for electricity has grown and will continue to grow. The four-year program of the Third Reich—which aims at the greatest possible independence of the German economy from foreign imports, and thus involves new synthetic electrolytic and electrothermic processes—demands an increased and a cheaper supply: “At present, in many cases, the optimum of economy and security is not yet guaranteed. . . . We should therefore at any cost achieve a close tie-up of all production plants and create a system which will be as interconnected as possible, and unified technically, managerially and economically.”

The main points of the new program toward a technical-eco-

<sup>1</sup> “Neuere Entwicklungslinien der Elektrizitätsversorgung,” speech of Carl Krecke at a meeting in Königsberg, August 5, 1937 (privately printed, Berlin 1937).

nomic optimum are briefly as follows. First, the interconnection of the companies within a district (only the technical collaboration of the district companies can guarantee an adequate supply for the raw material industries; also it can facilitate the necessary decentralization of industry throughout the country, and can improve the production cost level of agriculture). Second, interconnection of districts already unified and especially of the best located production centers. Third, the most economic application of power resources (this requires for example a wider use of types of hard and brown coal which are useless for other industrial purposes). Fourth, unification of the distribution units (the multitude of 14,000 enterprises of distribution whose existence cannot be technically or commercially justified, but only historically explained, must burden the cost level of the whole economy; reduction through amalgamation has to be enforced in order to achieve an economic and social balance of rural and urban interests). Fifth, more simplification in the rate structures (reconstruction of the tariffs in favor of the small consumers and the middle class remains the main goal; rates should be easily comprehensible, should stimulate consumption and should be "social"; therefore for all classes of consumers rates should sharply decrease after normal consumption has been reached). Krecke closed his speech by pointing out that while in former years it was primarily the engineer who stimulated technical progress, today it is high national and social goals which make it necessary for electricity to be closely organized for the utmost technical efficiency.

In Germany the state's strong position in industry was from the beginning an important factor in facilitating electrical planning. So far the dictatorship has followed the same direction as earlier planning policy; what is new is the special emphasis on autarchy, the corporative organization of the planning system, the method of carrying through the program, relying on the one-man decision, and above all, the recent proposals of Krecke, which would turn from evolutionary to revolutionary methods

of amalgamation. Certainly dictatorship is able to proceed more quickly toward the ultimate aims of planning than would be possible in a democracy, because dictatorship is able to disregard political hindrances, the interests of the investors, the capital market and even contracts with management officials. But it remains to be seen whether such extreme measures can be effectively accomplished, and whether under a dictatorship a completely planned economy, if achieved, will be used for its proper economic and social goals, or will be distorted to serve primarily the narrower interests of nationalistic economic policy.

England is now in the process of achieving a unified electric system, whatever may be the result of the recent public discussions and criticism of the government proposals. Some time in the near future a strong planning policy will lead to the collaboration of the planning administration and corporations on the one hand, and the single operating and distributing units, public and private, on the other hand.

In England, too, it was the war which revealed the technical and organizational backwardness of the whole electrical system. Committees were appointed to examine how an adequate supply of electricity could be assured, and to make proposals for national coordination. Their reports led to the Electricity Supply Act of 1919, which created the necessary bureaucracy, the Electricity Commission. This body of technical experts became the active and stimulating center of further planning policy. It was given licensing and supervisory authority, and also judicial rights, and from the beginning it was charged to modernize technique and organization. Within new geographically divided electricity districts it attempted to promote coordination in the form of a new type of corporation, the Joint Electricity Authority. It was given no compulsory powers, however, and thus integration could be achieved only on a voluntary basis. The attempt at voluntary co-ordination was successful only in London and three other places.

The Labour government, and also the following conservative government, recognized the urgent need for further governmental

activity. The result was the act of 1926 which strengthened the authority of the Electricity Commissioners as an administrative and judicial body, and also established the "Central Electricity Board" as an executive and operating planning body. This large planning corporation had to carry out the work of limiting the generation of power to a number of selected stations, privately and publicly owned, and had to erect and manage the "Grid system" of high tension transmission, creating a nationwide high tension distribution monopoly. From 432 former stations 127 were selected, and 16 new generating stations were erected. Since the creation of the Grid system sales of electricity have risen much faster than total generating capacity, because the Grid rendered it unnecessary for individual stations to maintain as high a proportion of capacity in reserve as previously. Only the distributing centers have not yet been erected; the Electricity Commissioners reaffirmed in their 15th Annual Report (April 1, 1934 - March 31, 1935) their consistent view that the centralization of generation must be supplemented by the improvement and coordination of distribution.

On the first day of June 1937, following the recommendations of the McGowan Committee on Electricity Distribution which reported in 1936, the British government circulated a draft proposal for a bill reorganizing electric distribution. The plan suggests the division of the country into 30 distribution districts in which the welter of 626 authorities would be reduced to 123 units (76 major groups and 47 subgroups). The purpose of this amalgamation is to provide larger and more effective units, and to create new areas on the basis of a reasonable diversity of demand between rural and urban consumers. Three alternative ways of amalgamation are proposed. Under the first method one enterprise may acquire the other enterprises in its district and receive a franchise of fifty years duration, after which time it should be purchasable by public bodies. If within a determined district the most important distributor cannot purchase the other enterprises, the Electricity Commissioners themselves may initiate one of the

other two methods of amalgamation: either all the enterprises in the area may be transferred to a newly constituted Distribution Authority, consisting of members appointed by the Minister of Transport after consultation with local authorities and organizations; or the municipally owned enterprises of a number of local authorities may be transferred to a newly constituted Joint Board. No scheme should be approved by the Electricity Commissioners unless it resulted in greater economy. In cases of disagreement with the Commissioners' decision, the Minister of Transport should be authorized by Parliament to make the final decision.

Within a determined district the distributing enterprises whose total sales are more than half of the electricity reaching *final* distribution in the district would have the right to ask for the creation of a local distributing authority. It is primarily this point which has been attacked by private industry, especially the private wholesale distribution companies, the power companies, because the wholesale provision of electricity to final distributing units outside the district is not counted. Thus the municipally owned companies, which often provide *final* distribution for more than half the electricity of a district, could supplant even the largest and most efficient private power companies. Private interests complain further against the proposed division of districts, which would also favor the retention of the municipal units. They estimate that three fourths of the retained enterprises would be municipally owned (the actual proportion of municipally owned companies at present is 60.5 per cent).

The private companies that are retained would be subject to various conditions and controls. The standard rate of dividends for ordinary shares would be fixed by the Electricity Commissioners, on the basis of the average revenues during the previous three years. A sliding scale would limit profits. If in any year the total revenue exceeded the total amount of costs, charges for depreciation (according to the approved depreciation scale of the Commissioners), interest on obligations, and the standard dividend, then the surplus would be divided giving five sixths to

the consumers and one sixth as surplus dividend to ordinary shareholders.

The proposals would discourage the extension of holding companies. Without special authorization from the Electricity Commissioners the new amalgamated enterprises would not be able to use the services of a holding company. The holding companies themselves would be subject to obligatory supervision and inspection by specially appointed experts of the Electricity Commissioners, with regard to their accounts and all relations with their affiliates. The proposals appear to assume that soundly integrated units can be established in the future without a further development of holding structures.

The powers of the electric bureaucracy would be enlarged in every direction. The Commissioners would also be given control over capital issues and the extension of facilities, and would have power to require all authorized enterprises to provide certain minimum services. They would have supervisory powers on tariffs, and should introduce the two-part tariff system.

An arbitration tribunal would approve or determine the purchase price of the amalgamated public or private enterprises. Municipal enterprises would receive compensation on the basis of the cost of assets, minus depreciation, and private companies would receive an additional compensation for the loss of profits which they would have made under the above mentioned scheme for the control of profits. Thus in this regard municipal enterprises would be treated less favorably than private, because the government assumes that public ownership is not concerned with surpluses.

Excited debates followed the publication of these government proposals. As the London *Times* remarked on July 12, 1937: "The criticism aroused by these proposals follows familiar lines. The Labour Party are sure to argue that, if regional [public] boards are best ultimately, why are they not best now? It is quite true, as the McGowan Report states, that 'the general principle laid down by Parliament' in the past is 'eventual public ownership.' But that means only that the change over should be evolu-

tionary, not revolutionary; and the report declares that, if the change were made suddenly and completely, the supply industry might well be dislocated and fair terms of compensation might prove impossible to assess. Criticism from the other flank argues that even this further stage in the evolutionary process is an unwarrantable attack upon private enterprise. In reply, it must be replied generally that the whole of those proposals arises from the defects of the present system pointed out by the McGowan Committee." The associations of the municipal public utilities presented a counter-proposal the keynote of which was cooperation among local authorities rather than centralized control. They believe that the power industry can be reorganized without loss of identity of existing enterprises. The private interests too are opposed to an extension of the planning bureaucracy. They point out that in practice the Commissioners will be plaintiff, judge and jury with respect to their own schemes, and that it will not be at all an easy matter for the ministers to overrule their decisions.

In spite of the storm of criticism the Minister of Transport, asked recently in Parliament whether the Government intended to introduce a bill to implement the memorandum on electricity distribution, answered: "It is the intention of the Government to introduce legislation to deal with the reorganization of the distribution of electricity supply." Thus the most unified electrical planning system in capitalistic countries will soon be launched—and this in England, the world's yardstick for free trade.

## VI

Representatives of the English bureaucracy praise its extensive power and political independence, especially in the planning corporation, the Central Electricity Board. The system is politically independent not only with regard to external organizational questions (members of the Board, for example, cannot at the same time be members of Parliament, and officers must be selected without regard for party allegiance), but also with regard to questions of policy and direction. Extensive power and a strict

avoidance of party abuses are of utmost importance for successful electrical planning, especially for the crucial task of keeping the industry abreast with changes in the conditions of supply and demand, so as to achieve maximum productivity and an optimum service. Responsible engineers and managers must have authority to accomplish the highest technical, commercial and organizational efficiency.

The ultimate goals of planning, however, involve decisions which reach farther than the proper limits of a bureaucracy, and it is a serious mistake to take the attitude that they too should be sharply separated from political authority.<sup>1</sup> For example, the all important question of how costs should be divided among the various ranks of consumers is one to be decided by the political administration, not by the bureaucracy. Private business answers this question by directing the divergent interests of the consumers in accordance with its final goal of a permanent and steady profit; to be sure, private business too, if managed with farsight, will also consider social demands to a certain extent, and will give sufficient service to the groups of small consumers in order to avoid political frictions. A planning policy, however, has to go farther, dividing costs according to more careful social criteria and deciding such questions as whether smaller customer groups (handicrafts) or thinly settled districts (the farmers) should be given

<sup>1</sup> This attitude is so strongly developed in the English electrical bureaucracy that most of its representatives at the Third World Power Conference in Washington in 1936 tried to prove that the Central Electricity Board is an almost omnipotent instrument for the whole English economy. When the New York speaker, Maurice P. Davidson, recommended public competition by yardsticks as an effective means of bringing down the general rate level, one of the outstanding English representatives, John C. Dalton of the London Electric Supply Company, replied: "Especially after the tirade we heard from Mr. Davidson . . . let us by every means in our power keep the politician away from this industry of ours of which we are so proud at last." The Englishman spoke either as a "realistic" politician, on behalf of the American private utilities (as many believe), or (as I believe) he did not realize that planning policy by its very nature demands constant political guidance and direction. He did not recognize that the yardstick policy of bringing down rates in the United States and the Central Electricity Board's policy of giving rural districts the first advantage of the integrated high tension system are of the same political character.

an advantage. In solving these problems it may be necessary to make changes in the rate structure, even though the principle is still maintained that the total costs—including depreciation, interest and even a certain surplus if necessary—should be fully covered. If it becomes the aim of general economic policy to plan electricity in such a way as to build up new consumption areas, relieve distressed areas, develop natural resources, then for a time it may be impossible to balance costs—even interest payments and depreciation—with income, and it may be considered desirable to shift the burden to stronger ranks of customers, if this can be done without checking the development of their demand. All such problems involve decisions outside the proper competence of the bureaucracy.

Thus planning divides responsibilities between two shoulders, one carrying through the organization and management, the other laying out the direction. Technical and managerial responsibility is always surrounded by a realm of political responsibility. The question is where the limits between the two can be drawn. Even within its own realm planning has to find a *modus operandi* between two contrasting interests.

In the United States too there is a danger that the newly created planning organization will become independent, not only with regard to managerial and technical questions, as is proper, but also with regard to underlying principles. It is most dangerous for the whole planning policy if the planning bureaucracy begins to quarrel in public about the political problems and final aims of its administration. The questions of rate structure, of the economic development of certain areas by providing industries with cheap electricity, of facilitating agricultural electrification, and of collaboration with private utilities, are political and should be decided only by the responsible political body. This will not interfere with the necessary decentralization; responsibility for execution and operation will still rest with decentralized units in new economic districts. But for the underlying principles of planning it will always be necessary to have centralization—in Washington.

# INVESTMENT FLUCTUATIONS AS CAUSE OF THE BUSINESS CYCLE

BY HANS NEISSEN

## I

### *The Problem*

IN THE attempts of political economy to master the problems raised by the business cycle we may easily distinguish three different approaches: the empirical or "correlation" approach; the monistic-theoretical approach, which represents the classical attitude since the times of Malthus and Sismondi; and the pluralistic-theoretical or "instrumentalistic" approach which, though repugnant to a mind requiring clear-cut answers to any puzzling question, is beginning to receive more and more attention from theorists, not least because of the obvious failure of the two other methods.

Here we are not concerned with the correlation approach, which seeks the mathematical law best fitting the empirically observed fluctuations of "business" (or the more elementary waves which, superimposed, would represent the directly observable facts); the failure of this approach is probably attributable to the exceedingly great number of parameters and variables which compose a social body. Of greater interest is the failure of the monistic approach, especially because we were recently faced again by a brilliant, though futile, attempt in this direction by R. F. Harrod,<sup>1</sup> who tries to accomplish what generations of economists have sought in vain—to find *the cause*, *the mechanism*, *the pattern* of the business cycle. The task was the more difficult because both classical and neoclassical economic theory interpret economic forces as striving for an equilibrium position, not for a periodical

<sup>1</sup> *The Trade Cycle, An Essay* (New York: Oxford University Press, 1936, 234 pp., \$3.75). Cf. especially p. 375.

rhythmical movement. Thus the monistic approach, if consistent, had to rely on frictions of all kinds — time lags, emotional waves, artificial and mistaken intervention of agencies which, like the banking system or the Treasury, are in a kind of key position; only a few economists were courageous enough to renounce in principle the idea of static equilibrium and to accept the periodical change of prosperity and depression as the genuine form of the capitalistic system.<sup>1</sup> The borderline between the two forms of the monistic approach cannot be drawn sharply; if the frictions, especially the time lag, of the first type are recognized as essential properties of the capitalistic system, then the friction type of theory shades into the truly dynamic.<sup>2</sup>

The dynamic type recently received unexpected succor from neoclassical equilibrium theory in the later writings of J. M. Keynes and his school, to which Mr. Harrod belongs. The number of theoretical schemes of this kind already suggested by different writers is so great that it could not be justifiable to subject each new attempt to an extended critical analysis. Mr. Harrod's construction, however, is based on certain fundamental ideas recurring again and again in business cycle discussion; and it is much more the significance of these ideas for business cycle theory than a detailed examination of Mr. Harrod's book which is the main objective of the present essay. In particular I wish to analyze two ideas used in explaining the business cycle: a special version of the oversaving approach; and the "acceleration principle."

In this way I shall try to perform the task imposed on business cycle theory by the instrumentalistic approach, that is, to analyze the different mechanisms coupled in various combinations by the monistic theories, and to develop a theoretical framework with the help of which the different, equally possible, combinations of

<sup>1</sup> This view was originally taken almost exclusively by heterodox socialistic writers, beginning with Rodbertus and Marx. The first clear pronouncement of the principle is to be found in Adolf Löwe's brilliant essay, "Wie ist Konjunkturtheorie überhaupt möglich?" in *Weltwirtschaftliches Archiv*, vol. 24 (1926) pp. 165-99.

<sup>2</sup> This becomes especially clear in the mathematical pattern set up by the so-called macro-dynamic school: Frisch, Tinbergen, Roos, Kalecki and others.

economic variables and constants could be understood.<sup>1</sup> Which of them has been realized in any historical moment is a matter of quantitative analysis; that one or the other will recur could be shown only by a general sociological-economic analysis of the properties of capitalism.

Before entering a detailed discussion of investment fluctuations as a cause of the business cycle it is necessary to outline in brief the chain of steps representing Mr. Harrod's theory. I am translating into plainer language his complicated terminology, which has received not unjustified strictures from the witty pen of D. H. Robertson: first, in prosperity aggregate income and aggregate demand for consumers' goods rise; second, investment is multiplied (the acceleration principle, or "Relation") and consequently income is multiplied in the second power (the "multiplier"); third, an increasing fraction of income is saved,<sup>2</sup> and thus entrepreneurs who had invested in consumers' goods industries are "disappointed"; fourth, investment stops, income shrinks, investment for replacement is postponed, income shrinks cumulatively; fifth, when investment for replacement is taken up a cumulative upswing is started.<sup>3</sup>

<sup>1</sup> From my own writings I may cite especially "General Overproduction" in *Journal of Political Economy*, vol. 42 (August 1934) pp. 433-65, and the book *Some International Aspects of the Business Cycle* (Philadelphia 1936). Cf. also W. Egle, "Savings, Investment and Crisis" in *Journal of Political Economy*, vol. 43 (1935) pp. 1721-42, although I could not acknowledge his presentations of my views as correct. Haberler's treatise, *Prosperity and Depression* (Geneva 1937), which uses the same approach, was published when the manuscript of the present article was already in the editor's hands; for one specific line of his argument see below, footnote 2, page 456.

<sup>2</sup> The term "rising propensity to save" refers both to the behavior of an individual who enjoys a higher income and to the behavior of the system, which on the average intends to save a larger fraction of aggregate income; I shall call the latter interrelation the law of the declining spending quota.

<sup>3</sup> In the first part of his book Mr. Harrod does not explain by theoretical analysis the cumulative process of steps four and five. Mere observation of the positive correlation between prices and economic activity is enough for him (pp. 37 ff.) to introduce the general price level as fourth determinant (the "monetary destabilizer"). My presentation in the text is based on the second part of his book, which may be supposed to offer the theoretical explanation for the observation concerned.

Anticipating the results of the following analysis, I would deny that a decline in the spending quota would create deflationary anticipations and would terminate investment in all circumstances. Investment activity is not tied up only with the course of demand; it is contingent upon the relation between price and costs. Thus the decline in the spending quota would produce the alleged disastrous effects only if it were supported by additional dynamic factors or if it were great enough to produce a shock effect. It is not deduced by Mr. Harrod, and it cannot be deduced by means of qualitative analysis, that these additional conditions will be generated periodically. Mr. Harrod's pattern is in fact no more than one in many possible patterns, and in my opinion not the most characteristic constellation in capitalistic development.

## II

*Investment under Perfect Competition*

According to traditional theory investment of current savings is affected by the interest mechanism, which at the same time secures success for the investing public in general, though not necessarily for the individual investor. In this part of the discussion we may disregard "inventions," that is, a change in the *form* of the production function. An increase in population is usually regarded as promoting the maintenance of a moving equilibrium; therefore we do not unduly facilitate our task by assuming, in the following pages, a given amount of labor and by investigating from this angle the effects of current saving and investment.

The premises of traditional theory of investment include certain monetary assumptions. There would be no need for such assumptions if we could accept the classical hypothesis that the absolute price level is irrelevant and that only price relations matter; a great part of the problem at hand, if not the whole, would then vanish or could be attacked only under enormous difficulties. In accord with nearly all writers on dynamic economics I shall assume that during the current process of invest-

ment some kind of "monetary expansion" is accomplished: the revolving money funds necessary to make the current income and business payments in the new sector of the system established by the investment process shall be supposed to be provided, not by saving out of the old sector's income that was earned in the current production of goods, but by monetary creation.<sup>1</sup> It should be remembered that this addition to the money flow would not be needed before the new investment is assembled and put into operation, a moment which I shall call the "operating moment."

The investment problem presented to traditional theory can then be stated as follows. Any investment creates, from the operating moment, a flow of goods and services to be offered in the market, and a corresponding flow of income of equal value, which would enable the income receiver to purchase the additional output at cost prices. But it is not to be expected that this would be realized for the individual entrepreneur, that is, that the additional income created by his activities would be used exclusively for buying his additional output. On the other hand, the entrepreneur cannot possibly know whether his fellow entrepreneurs in other industries will reimburse him by investing at the same time. This problem can be solved satisfactorily under conditions of perfect competition, which permits the individual entrepreneur to regard the price of his product as given independently of his actions, and thus of his investment activities. Therefore any decline in costs, especially in the interest rates, would stimulate investment in the industries characterized by perfect competition.

The mechanisms through which the decline in costs and the increase in investment are brought about require a somewhat closer analysis. As to the first, according to traditional theory there could not be any doubt that in the situation here considered the interest rate would fall, because the current supply of saving

<sup>1</sup> Cf. the more detailed discussion in my article on "Monetary Expansion and the Structure of Production" in *Social Research*, vol. 1 (November 1934) pp. 434-57. Here the reader must be satisfied with the assertion that all difficulties arising for the above assumption out of the savings-investment controversy could be overcome.

could not be absorbed at the current interest rate, in other words, because the rate has to be adapted to the marginal productivity of capital. It is not clear, however, whether Mr. Harrod would agree with this principle, for he is inclined to accept the somewhat obscure manner in which the marginal productivity of capital and the interest rate level are interrelated in Mr. Keynes' theory. According to the latter the interest rate lives an almost independent life, guided only by the liquidity preference and the quantity of money, refusing to adapt itself to a declining marginal productivity of capital and somewhat checking investment in that instance. Likewise Mr. Harrod declares: "The long term rate of interest is governed by the prices at which dealers in long-dated securities are willing to exchange them. It is very unlikely that in a steadily advancing society they would change their valuation in such a way as to cause this large variation of yield" (p. 123). Certainly, from the traditional angle, the sentiments of dealers are of no concern at all. The saver must take what the marginal producer can afford to pay, and he will take it, according to experience, as long as he is offered for investment with practically no risk a rate of no less than  $2\frac{1}{2}$  per cent.<sup>1</sup> I have not space to discuss extensively Mr. Keynes' theory of interest.<sup>2</sup> It may suffice to

<sup>1</sup> It is true that the interest rate would be adapted in the manner described only if the decline of marginal productivity were supposed to be of a lasting nature. I shall discuss this point below.

<sup>2</sup> Cf. my "Commentary on Keynes" in *Social Research*, vol. 3 (November 1936) pp. 459-78, which, in substance, seems to be corroborated by the brilliant mathematical restatement of Keynes' interest rate theory by J. Hicks, "Mr. Keynes and the Classics" in *Econometrica*, vol. 5 (1937) pp. 147-59. According to this presentation the interest rate is determined by the intersection of two functions (the one positively, the other negatively sloped) which, at a given quantity of money, associate the interest rate and aggregate income. "It would appear from our diagram that a rise in the marginal-efficiency-of-capital schedule must . . . also raise the rate of interest" (p. 154). Mr. Hicks answers this question by asserting that the positively inclined function may possess a horizontal portion to its left. But his only argument, based on the fact of the critical minimum of the interest rate, is scarcely adequate, since the function in question does not associate interest rate and supply of capital. On the other hand, at a given interest rate (along the horizontal portion) and thus at a given volume of speculative balances, how could an increasing income and thus an increasing volume of transaction balances be reconciled with the condition of a given quantity of money?

point out that, as starting point, the traditional approach could be justified even from Mr. Keynes' and Mr. Harrod's point of view, for if the current rate of interest "depends on the strengths of the desires to hold wealth in liquid and in illiquid forms respectively,"<sup>1</sup> then in an equilibrium situation there is no reason why savers should not prefer "illiquidity," that is, investment at the falling interest rates which the borrowers are only able to grant with a falling marginal productivity of capital — provided the interest rate level keeps above the critical minimum.

As to the mechanism of investment, a decline in the interest rate would induce (besides its effect on commodity stocks) a three-fold increase in the demand for capital. First, it would lower the cost curves and increase utilization of the given equipment until the marginal costs of the firm again met the price-line, shifting the minimum of average costs to the right; this process would be likely to absorb relatively little capital (working capital) and relatively much labor. Second, it would induce in every enterprise the application of more *fixed* capital, of any form, thus shifting further to the right the intersection of the price line, average costs and marginal costs.<sup>2</sup> Third, it would induce the establishment of new firms of the new optimum size, which again would create a demand for labor from the moment of operation. Two of these tendencies, the first and third, would soon be stopped and indeed, as to the increase of aggregate output, would prove almost abortive, because the amount of labor available is supposed to be constant and wage rates would rise if the processes were really carried through. The second tendency would be pursued further; also, investment would be carried on in types of enterprise such as

<sup>1</sup> Keynes, *The General Theory of Employment, Interest, and Money* (New York 1936) p. 213.

<sup>2</sup> At first glance it could be supposed that any addition of fixed capital would affect only the fixed or supplementary costs, which do not influence the actual magnitude of a firm's output. Any change of technique, however, is likely to influence also the marginal cost curve in its whole length, and this may occur without any decrease in the amount of labor employed, that is, by transferring some labor to the fixed overhead portion of the staff.

residential buildings (really belonging to the third tendency) which require only a negligible cooperation of human labor for being put into operation. Two conclusions may be drawn: first, under the conditions here assumed investment would start over the whole range of economic activities, including capital goods industries; second, it is bound to be disappointed in many places, for the increment in income emanating from the investment from the moment of operation, and equal to the cost value of the ensuing increment in the output, would not be devoted in the same proportions to purchasing that increment, but would be distributed according to the independent schedule of income elasticity. Thus, for commodities with an income elasticity smaller than unity, investment would be retarded unless the share of capital costs were very high; for commodities with an income elasticity greater than unity it would be stimulated.

If we now look upon our results from the angle of the under-consumption theory in Mr. Harrod's formulation the question will at once arise: do the results hold true also if the income elasticity for consumables in general is less than unity, that is, if the spending quota declines? We shall accept at the outset the basic proposition of any refined theory of oversaving: that "disappointment" over the whole range of investment in consumers' goods industries would terminate investment of any kind and create a cumulative deflation. But would investment be disappointed in all fields? Clearly an average income elasticity for consumables smaller than unity would be compatible with individual elasticities greater than unity. Moreover, the compensating effect of the lower capital costs must not be neglected. Investment does not simply stop when savers or entrepreneurs are disappointed; the question is, disappointed *in what*, and *how far*. The price fall caused by an income elasticity less than unity for some commodity need not lower profit below the normal level if costs are declining at the same time; only the expectations as to supernormal profits would be disappointed.

Let us take as example the services of residential buildings, and

suppose interest costs amounting to three quarters of current rent and an average interest rate of 5 to  $5\frac{1}{2}$  per cent. It can be seen at once that a fall in the latter rate of about one fifth, that is, to 4 to  $4\frac{1}{2}$  per cent, would lower the current cost bill by about 15 per cent. Thus, even if we assume that a low income elasticity would be coupled with a demand elasticity smaller than unity, profits in residential buildings would not necessarily fall below the normal level. Assuming an income elasticity of  $\frac{3}{4}$  and a corresponding demand elasticity<sup>1</sup> of 0.15, a price fall of 15 per cent, here supposed to allow still for normal profits, would entail an increase of  $2\frac{1}{4}$  per cent in the consumption concerned; but an increase of  $2\frac{1}{4}$  per cent in the stock of residential building per six months (the period of production) would absorb about half of the current savings in a modern industrial community. Needless to say, the assumption of a zero elasticity of substitution, with a consequent demand elasticity of only 0.15, is unnecessarily severe and not realistic. It is therefore safe to maintain that, under neutral expectations as to the future price development, a decline in the interest rate by the extent supposed above would take care of all available savings by drawing them into building and construction activities of all kinds.

Thus a simple rise of the savings quota does not suffice to establish the fundamental condition of refined oversaving theory: pessimistic anticipations which lead investors to refrain from investment.

Additional factors are needed to explain the turning point of the cycle; in the present stage of discussion, however, those must be disregarded which are of an essentially dynamic character, such as monetary fluctuations or inventions. To introduce a rise in wage rates would not invalidate the result. It is true that wages will eventually be raised by the decline in the marginal productivity of capital, offsetting the gain from falling capital costs; again the entrepreneur would be disappointed in his expectations of excess

<sup>1</sup>On the basis of a zero elasticity of substitution and a 20 per cent share of dwelling expenditure.

profits. But since this is only the *effect* of the investment process, not foreseen by the entrepreneur,<sup>1</sup> it cannot prevent the process from being started, and the renewed pressure which is exerted on the interest rate by continuing saving will keep the process going.

Therefore it remains true that under the conditions hitherto assumed we can establish a breakdown from under-consumption only by making definite assumptions about the degree in which the spending quota would decline with rising income. General assumptions of this content, however, meet the difficulty that in numerous instances investment would bring about a change in the relative distribution of income in favor of the working class, and in some cases might even bring about a reduction in the aggregate income of the capitalist class, making rather for a rising spending quota.

It is for these reasons that Mr. Harrod introduces as second "dynamic determinant" a shift to profits occurring during the upswing, which indeed would make a strong fall of the spending quota more likely. He lays much stress on imperfect competition as cause for this shift, not justifiably in my opinion, as I shall show in the next section. In any case, as long as we stick to the premise of an unchanged form of the production function, and do not introduce other dynamic<sup>2</sup> assumptions (to be examined in section iv), an increase in the share of profits in aggregate income is certainly not the necessary outcome of the investment process, and is not even particularly likely.

Thus there is only one instance in which a small rise in the saving quota would be sure to stop investment: the case in which the interest level during prosperity is already close to the critical minimum below which savers do not like to invest.

<sup>1</sup> It is here assumed that perfect competition in the market of commodities entails perfect competition in the corresponding market for labor; although this is not theoretically necessary it is nevertheless extremely likely.

<sup>2</sup> I here use the term "dynamic" in a different sense from that intended by Mr. Harrod, indicating not the effect but the conditions required to generate the effect in question.

## III

*Investment under Imperfect Competition*

Mr. Harrod introduces imperfect competition mainly as basis for his theory of profit fluctuations. It is, however, worth while analyzing it in more general terms.

Under imperfect competition the investing entrepreneur would anticipate the fall in price for his own product that would be caused by his investment, that is, he would take account of the specific demand elasticity in his market. Moreover, since he would possess a quasi-monopolistic position, he would try to maximize his profit by restricting output, a policy which clearly is not very conducive to investment. Perfect monopolies, however, are too rare to constitute a serious restriction on the process of investment.

To explain the alleged failure of investment it would be better to examine monopolistic competition with Chamberlin's terminology.

Since it is probably the most widespread form of monopolistic competition we may start with "differentiation," in which customers are attached particularly closely to an individual firm. In its first stage differentiation is *favorable* to investment, because it stimulates the rise of new firms desiring to participate in the quasi-monopolistic profit chances. Sooner or later, however, this process of investment will come to an end; for our particular purpose it does not matter whether or not in the terminal position some monopolistic profit from differentiation is still left.<sup>1</sup> If none is left the demand curve for the differentiated product of the individual firm would be shifted so far to the left by the entry of new

<sup>1</sup> Chamberlin answers in the negative; but to reach the non-profit situation almost unlimited possibilities of genuine differentiation would be necessary. On the other hand, if they are limited, as they usually are, the process is likely to end in a state of "oligopoly," that is, in small groups of firms with products not markedly differentiated, in spite of trademarks. In any case, fear of newly rising firms and, in the instance of oligopoly, fear of cut-throat competition as described by Edgeworth, would considerably limit the amount of monopolistic profit exacted from the buyer.

firms that it would touch the average cost curve at only one point,<sup>1</sup> stretching for the rest entirely below it.

Whatever attitude the oligopolist takes—a wholly monopolistic attitude, or one in the middle between perfect competition and perfect monopoly—the role of marginal costs in determining the size of the output is not decisively changed. The investment scheme developed above remains applicable.<sup>2</sup> What has changed is the demand curve, and therefore the marginal revenue curve, the intersection of which with the marginal cost curve fixes the size of the output. Thus additional investment will be driven less far by declining interest rates, the distance between the point of intersection before and after the decline in question being much smaller in case of monopoly than in case of perfect competition. And even if the oligopolist, being afraid to stimulate the rise of new firms or cut-throat competition from existing firms, should be satisfied with normal profits (equating marginal costs with demand price and transgressing the point of intersection between marginal costs and marginal revenue)—even then output and potential investment would be smaller than under perfect competition, because of the negative slope of his demand curve.

Nevertheless, a decline in cost rates, especially in interest rates,

<sup>1</sup>This tangential relationship would exist for the "long-run" cost curve, that is, the normal supply curve, as well as for the "short-run" cost curve, in which we regard the firm's equipment as given. It is entirely possible, in fact even likely, that after due reorganization the tangential point in question would, in equilibrium, coincide with the minimum of the short-run curve. And it is therefore misleading to accuse differentiation of bringing about "excess capacity" instead of holding that it raises costs by imposing a relatively small size on the firm. At least, I am unable to see what meaning could be attached to the term "full capacity" if not production at minimum average costs in a firm of given size; thus excess capacity would describe a situation in which output is at the left of the minimum point.

<sup>2</sup>In the instance of oligopoly proper the construction of a particular demand curve for the individual firm on the lines of partial equilibrium theory is not possible (for the contrary views of Mrs. Robinson and Mr. Harrod see H. von Stackelberg, *Marktform und Gleichgewicht*, 1934, pp. 86 ff., 135 ff.). Actually, however, any real situation of oligopoly is likely to become like a semi-monopolistic situation in which the markets for the time being are split by "silent" agreement; then the argument in the text would be applicable.

would stimulate investment to some extent also under conditions of imperfect competition.<sup>1</sup> Since the demand for capital would be relatively smaller, however, the danger is the greater that the critical minimum of the interest level would be reached at which investment stops. For practical purposes everything depends on the actual degree and the intensity with which imperfect competition is spread through the present economic system. Does it dominate primarily the industries with a high income elasticity? I shall not venture to give an answer warranted by statistical analysis, but some general remarks may be permitted, intended to reduce the significance of imperfect competition for the problem at hand.

First, there is some tendency to exaggerate the realm of imperfect competition, to generalize the experience of some leading capital goods industries characterized by oligopoly and to apply it to the consumers' goods industries; in the latter, for the mass of consumers and the bulk of articles, the existence of department stores, mail-order houses and the like not only considerably intensifies competition—when the price-differential exceeds a certain critical amount—but offers also a fruitful field for investment.

Second, since, as has been shown, some investment would go on also under imperfect competition, it might be expected that savers would compete for the limited amount available, thus driving down the interest rate to the critical minimum before investment is actually terminated.

The third and main argument, however, is of a theoretical nature. Plainly a permanent shrinkage of investment, caused by imperfect competition, would not explain the business cycle; we need some cyclical change in the behavior of investors. And since the degree of imperfectness itself cannot be shown to undergo spontaneous cyclical changes in the necessary direction, Mr. Harrod bases the theory of investment fluctuations on a change in demand elasticity; and, indeed, a decline in demand elasticity

<sup>1</sup> As an example we may again cite the building activity in a residential area of limited size. Any new apartment house is likely to influence the rent level, consonant with the oligopolistic situation; nevertheless, a considerable fall in the interest rate might stimulate building activity.

would reduce the amount of investment deemed profitable by the individual entrepreneur, because it would entail relatively higher prices and a relatively smaller output. Mr. Harrod insists that the demand elasticity will be the smaller the higher the income, cyclically and secularly, for with a higher income people are supposed to be less inclined to look around for cheaper substitutes. It must be doubted, however, that this attitude is the rule, for if it were, people would quickly find their real income reduced to the former level. Moreover, there exist tendencies to increase demand elasticities with rising income which would offset Mr. Harrod's effect; poor people, for example, will display a very small demand elasticity for grain, and would rather sacrifice other enjoyment before substantially reducing bread consumption, but with rising income a more elastic demand for grain is added (for whisky or cereals, for example).

## IV

*Dynamic Fluctuations of Profit*

The great role played in stimulating and directing investment by "new combinations," "inventions," "discovery of rich natural resources," in brief by a change in the form of the production function ("technical progress") does not require detailed analysis. During prosperity such changes will keep the interest rate on a relatively high level; but since the temporary cessation of "inventions," by considerably lowering the interest rate, would create a demand for capital of quite a different character (as described in the preceding sections), we could not identify the temporary slack in new combinations with deflation and crisis.

A complete dynamic theory would have to study the possible influence which technical progress, by directing investment into specific channels, would exercise on the structure of production,<sup>1</sup> or, through its influence on employment, wages, profits, etc., on the structure of expenditure. This, however, is not the place to

<sup>1</sup> Thus investors might be disappointed even with an unchanged spending quota.

dwell on these topics.<sup>1</sup> I shall enter the discussion only so far as necessary in order to show that Mr. Harrod's theory of investment fluctuations as cause of the cycle gains a greater semblance of realism by introducing additional elements which *presuppose* a dynamic situation.

In order to bestow more weight on the law of the declining spending quota Mr. Harrod introduces as second dynamic determinant the shift to profit associated with a given advance of output, concluding that this change in the distribution of income would further reduce the average propensity to consume. Of the reasons given by Mr. Harrod we have already rejected, in the preceding section, the alleged decline in the demand elasticity, which would permit the entrepreneur to raise the monopolistic profit. More generally, it has been pointed out above that a considerable shift to profit is not likely to be the outcome of a pure, that is, non-dynamic investment process during which the production function is supposed to remain unchanged. There remain dynamic phenomena, the effect of which could be presented, as preferred by Mr. Harrod, in terms of the relation of average costs to marginal costs.<sup>2</sup> We should distinguish here between the dynamic causes proper of the cyclical movement (such as inventions), the periodical recurrence of which could not be proved with the tools of pure economic theory and which therefore have to be treated as independent variables, and the "dynamic" phenomena which represent typical by-products of the cycle: the rise of differential rents, as a result of utilizing less efficient equipment; the restoration of "normal" relations between profit and hourly wage rates, the latter having maintained an economically excessive level during depression on account of short-time; and, not least, the temporary lowering of the wage rates below the marginal pro-

<sup>1</sup>I have tentatively set up a general framework of reference in the writings of mine mentioned above (footnote 1, page 442).

<sup>2</sup>The magnitude of the cyclical change in this relation is underrated by Mr. Harrod because, curiously enough, in his opinion profit depends upon the relation of average *prime* costs to marginal *prime* costs, instead of on costs in toto (p. 78).

ductivity level through credit inflation. It must not be overlooked, however, that all these factors are likely to display their greatest strength in the beginning of recovery; in fact, they might be able to check recovery from the outset, especially if strengthened by the desire of the unemployed to restore their savings. The longer the upswing lasts the more they will lose force; the less efficient plants (even of submarginal firms) will be modernized or replaced, wage rates will make good the loss suffered from credit inflation, increasing investment will raise the marginal productivity of labor. I do not contend that these compensatory events will always come in time, or are necessarily of an adequate magnitude. I only insist that without the help of additional assumptions the constellation supposed in Mr. Harrod's pattern is much more likely to prevent any upswing at all than to explain the end of prosperity and the trade cycle.

## v

*Maintaining a Given Rate of Progress*

As mentioned in the introductory section, the acceleration principle, or "Relation," plays a great role in Mr. Harrod's pattern. Indeed, since a constant demand for certain consumers' goods would not require any output of capital goods to be utilized in the production, beyond mere replacement, the rate of change in the consumables output would be much smaller than the rate of change in the output of the corresponding capital goods. If, for example, 100 units of machinery are needed for 1000 units of cloth—which may represent the annual output—and if the machinery lasts ten years, then an increase of the cloth output by 10 per cent, or 100 units per year, would necessitate, in the first year, an increase from 10 units (mere replacement) to 20 units in the output of machinery, that is, an increase of 100 per cent. Machine output would therefore decline if an even rate of advance in cloth consumption were not maintained. In principle the validity of the "Relation" for any particular industry cannot be

doubted.<sup>1</sup> But I wish to deny emphatically that the same simple scheme could be applied to the economic system as a whole. The slack in demand for the specific capital goods in question would, other things being equal, reduce the interest rate level and, in the manner already described, stimulate investment in other fields, including those in which no preceding increase in demand had occurred. In other words, aggregate investment depends solely on the supply and demand schedules for capital in general, the latter in turn being contingent upon the marginal efficiency of capital in general.

For the proposition that investment does not depend, in principle, on a preceding increase of demand (that is, on a shift of the market demand function to the right) I can only refer the reader to sections II and III above.<sup>2</sup> Of a certain interest is the corollary that such a shift, if occurring, would not necessarily bring about a commensurate investment and an increase in the capital goods output in question as indicated by the "Relation." This becomes

<sup>1</sup> Certain important qualifications as to the order of magnitude are outlined by Simon Kuznets in his contribution, "Relation between Capital Goods and Finished Products in the Business Cycle" to the *Economic Essays in Honor of W. C. Mitchell* (New York 1935) pp. 209-69.

<sup>2</sup> Haberler, though acknowledging in principle the action of the interest rate mechanism, is inclined to minimize its usefulness in practice: "Even in the most favorable case, where no business failures result from the cessation of investment and no banks are affected so that no special inducement to hoard is produced, there will usually be a delay between the new funds' becoming available and their use for new investment. Investment plans are not always prepared in advance, so that they can be put into operation at short notice when the situation changes. They must be planned; and even when they are planned, a certain amount of preparatory work is usually required before orders are given and the money is actually spent" (*op. cit.*, pp. 251 ff.). This argument, however, presupposes abrupt changes in the direction or in the course of technical progress; and does experience confirm the proposition that capital funds sometimes lie idle, condemning the capital goods industries to losses, because the consumers' goods industries that are favored by demand need time to plan their expansion? Somewhat later (p. 267) Haberler seems even to deny the possibility of any further investment "when almost all idle factors, especially labor, have been drawn into employment." Since this argument would not allow any change in the amount of capital per worker (contrary to the traditional basic doctrines, otherwise adhered to also by Haberler), we may interpret it in the light of Haberler's general theory of crises, as briefly reproduced above.

clear at once if we assume an annual advance of 10 per cent in the total demand for consumers' goods, starting from a stationary state; then it might be physically impossible to accomplish during the same period the 100 per cent increase of the capital goods output required by the "Relation," because there would be a lack of "capital," both in terms of "savings" and in terms of "capacity of capital goods industries." A corresponding price rise would ensue, as stressed so frequently at other places by the neo-Cambridge school itself. In the long run capital goods prices might decline again, provided that the demand for consumers' goods advanced no further. But this explanation of the cycle (if it is one) depends not on the "Relation"—it might occur with a "Relation" of 1:1—but on monetary elements and time lags, two modes of explanation spurned by Mr. Harrod.

As basic explanation of investment fluctuations, therefore, the "Relation" is not satisfactory. It should not be denied, however, that it may play a role if the stage is already set for a dynamic development.<sup>1</sup> If in a depression savers refrain from investing, and the capital goods output drops even below the replacement necessities, these phenomena may be explained in terms of the "Relation," though the mere turn from an increasing demand to a stationary one would not suffice as explanation, but would have to be supplemented by anticipations of a further price fall or by the rigidity of some cost elements. Likewise, the degree to which savings are invested during rising recovery might be explained in terms of the "Relation," provided it was in fact preceded by an increasing demand for consumers' goods, which in Mr. Harrod's pattern would be attributable to the rise in replacement orders.

In general, however, there is no necessity to maintain a given rate of advance in consumption in order to maintain an even rate

<sup>1</sup>I have already mentioned the usefulness of the "Relation" for explaining the concentration of investment in a particular industry, arising for whatever reasons, not only as a result of a preceding increase in demand but also, for example, as a result of technical progress. It may thus create partial overproduction and influence the volume of output or employment in toto. But this is not identical with general disequilibrium between aggregate costs and receipts.

of investment. Nor is an even rate of investment necessary in order to keep up the moving equilibrium of the system and avoid monetary destabilization. The use of the "multiplier"<sup>1</sup> for establishing the causal relation between investment and income—in the beginning was the investment!—has misled Mr. Harrod. By breaking up the perpetual process of circulation into independent series of exchanges, each starting with a certain amount of "investment," the necessity of differentiating according to the source of investment is disregarded. It is simply not true that changes in the amount of net investment entail corresponding changes in the level of income, in the (varying) proportion indicated by the multiplier.<sup>2</sup>

If the fluctuations of investment are associated with simultaneous fluctuations in spending of the same magnitude but of opposite direction (that is, in traditional terminology, if investment arises from voluntary saving)<sup>3</sup> then the level of income in the following period would show no fluctuation at all. To avoid depression it is therefore not necessary to maintain in perpetuity any given rate of advance (p. 114); what is needed is timely aggregate reimbursement of entrepreneurs for all costs incurred in production, and such reimbursement is compatible with fluctuating rates of investment, though it would require variations of the money flow proportionate to the variations in the current supply of factors and their rate of remuneration. Of the following state-

<sup>1</sup> Cf. the more detailed criticism in my remarks on "Secondary Employment" in *Review of Economic Statistics*, vol. 18 (February and August 1936), and in my "Commentary on Keynes," cited above.

<sup>2</sup> Cf. Harrod, p. 74 (under number 4), p. 95, especially also p. 97: ". . for if net investment is to decline, the level of income and consumption must do so too (the Multiplier)."

<sup>3</sup> The ultimate reason why Keynes and his school insist on neglecting this orthodox distinction lies in the terminological difficulties concerning saving and investment which they created for themselves by using Keynes' peculiar income concept. There is no room for a detailed discussion. It may suffice to point out that Keynes himself cannot do without the very concepts of monetary expansion and contraction which the so-called "neoclassical" theory of a possible discrepancy between savings and investment wishes to interpret, and that Mr. Harrod escapes a similar necessity only by the device of refraining from any explicit theoretical analysis of the "monetary destabilizer."

ment of Mr. Harrod's (p. 115) we can grant the premise without admitting the conclusion: "Diminishing returns will supervene and ultimately supervene with sufficient acuteness to check the rate of advance whatever happens to the rate of interest. And this involves a full depression." The intervention of diminishing returns implies only that the stock of capital increases more than *both* net output and net income. This may influence the numerical value of the multiplier, but it does not prevent the income receivers from buying back the output at cost prices.<sup>1</sup> Nor does it enhance the probability of a rising saving quota. On the contrary!

Mr. Harrod seems to have overlooked the fact that this checking action of diminishing returns is identical with the action of his third dynamic determinant, to which he ascribes a *stabilizing* effect (p. 91); the fact that output rises by less than the p per cent by which the stock of capital goods increases can be explained only on the basis of the law of diminishing returns. The fact is true; the use of it, however, as a particular dynamic determinant is one of the unnecessary complications which make Mr. Harrod's book such difficult reading. It is an obvious mistake, attributable to the mysterious properties of the multiplier, to declare that "consumption will rise by p per cent" because the increase of net investment (here taken as equivalent to the stock of capital goods) is assumed to be p per cent; at a given savings quota ("on the assumption that the two other determinants are neutral") consumption is contingent not upon investment but upon income; and income, under the rule of the third determinant, commonly called the law of diminishing returns, does not increase proportionally to the stock of capital.

By disposing of the even rate of advance as a necessary condition for equilibrium we also remove Mr. Harrod's gravest objection to the efficiency of the interest rate mechanism. My own confidence in this mechanism is limited: if anticipations deviate from the

<sup>1</sup>The difficulty from increasing differential rents is a purely monetary one: the funds for their turnover have to be provided by creation of money if deflation is to be avoided.

neutral path, as in depression or boom, I am not inclined to attribute any quick equilibrating force to the interest rate mechanism; but for explaining the cycle and the crisis, and for *deducing* investment fluctuations as their cause, we must start with neutral anticipations and then the interest rate mechanism will play a decisive role, subject to the qualifications expounded in sections II and III. Mr. Harrod's stand is not entirely clear; on page 59 his opinion seems to be rather close to the traditional view, but in Chapter III, section 1, he vigorously denies any stabilizing force to the interest rate, for two reasons, one more theoretical and one more practical one. We have already disposed of the first, according to which the interest rate mechanism fails because it cannot maintain a given rate of advance. The second argument, taking up an idea of Keynes', points out (pp. 121 ff.) that savers may refrain from investing at declining rates if and when they foresee relatively high profit rates in the near future. It should not be denied that such situations occur, and that they even might explain a recession, but are they characteristic for the later phases of prosperity when, according to Mr. Harrod, rising income engenders a decline in the propensity to consume and thus in profits in consumers' goods industries? A crisis is usually supposed to arise because the future looks dark, but Mr. Harrod needs the combination of a dark immediate future and a rosy future somewhat further distant, not to mention the condition that the future profitable investment cannot be accomplished or even prepared in the present time. This is certainly a possible construction, but it seems rather hazardous to build on such a foundation a *general theory of the trade cycle*.

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# OPPOSITION AND PUBLIC OPINION UNDER THE DICTATORSHIP OF NAPOLEON THE FIRST

BY KARL LOEWENSTEIN

## I

THAT Napoleon Bonaparte was the military genius of his age needs no repetition. Less well known yet by no means less momentous are his performances in the purely governmental sphere, by which he ranks among the greatest political organizers in history. His rule over France is appropriately termed a dictatorship because it reveals all the features familiar in latter-day dictatorial governments, for which it serves—let it be noted here—as an unequalled example. He eliminated successfully the rivaling political factors within the state, he destroyed skilfully the distribution of powers among different power-agencies; thus he gained and maintained the monopoly of political ascendency. Within the rigorously centralized administration uniformity of execution corresponded to unity of command. By exercising his military temperament in the realm of government he conquered absolute power in the state. To the student of socio-political phenomena this process is perhaps no less fascinating than that of following his strategic schemes on the battlefields of Europe.<sup>1</sup>

Within scarcely more than three years Napoleon, after the coup d'état of Brumaire 18 (November 9, 1799), rose from the function of the First Consul under the constitution of the year VIII to the position of an absolute monarch under the imperial constitution of Floréal 28, XII (May 18, 1804). At least two of the three

<sup>1</sup> For a more detailed study of the governmental techniques applied by Napoleon see Karl Loewenstein, "The Dictatorship of Napoleon the First" in *South Atlantic Quarterly* (1936) pp. 298 ff., and "Die Diktatur Napoleons des Ersten" in *Zeitschrift für öffentliches Recht* (1936) pp. 619 ff.; the latter article contains also elaborate bibliographical notes on pp. 649 ff.

constitutional instruments of this period bear the personal imprint of his legal acumen, thus revealing the great soldier as an eminent constitutional lawyer. The constitution of the year VIII was a document of intentional ambiguity and deliberate complexity, qualities which helped the rising dictator to bend the other constituted agencies gradually under his supreme will. While retaining the semblance of popular representation as the basis of the political pyramid he subsequently substituted nomination from above for election from below. The Senate, most important among the parliamentary assemblies, nominated the members of the other legislative bodies, namely the Tribunat and the Corps Législatif. Napoleon, however, together with his intimates, nominated the members of the first Senate and later on added new senators *ad libitum*. Thus controlling the Senate, packed by his followers, he controlled both branches of the legislature which, in addition, was rendered powerless by atomizing its deliberative and voting functions. A series of tactical moves and constitutional tricks, though administered without an open violation of the constitution, enabled him to crush the opposition in these assemblies. By dead-locking and playing them off one against the other he emasculated them politically and functionally to such an extent that the complicated mechanism became simple when he finally operated the government by the subservient Senate alone. When the empire was established in 1804 parliamentary life had disappeared no less than the separation of powers. No trace of parliamentary opposition was left. The Senate was little more than a rubber stamp for measures proposed and drafted in the Conseil d'État or a Conseil Privé; the Tribunat, as the most obstinate of the parliamentary assemblies, was finally abolished in 1807 and the Corps Législatif, rarely convened and, if convened, only a powerless ornament, became an obsequious tool of the dictator, used by him as the fitting background for the ceremonial state pageantry in which he is second to none of his modern imitators.

In line with the subjugation of all other political powers of the state Napoleon proved his mastery in civil organization proper. In

the "departements," as territorial subdivisions of France, the prefects, chosen by him personally and directly responsible to him, governed in the capacity of dictators *en miniature*. They provided the country, however, after ten years of revolutionary anarchy, with a most efficient and impartial administration. The ministers, thanks to his selective genius mostly men of high professional ability, were merely chiefs of bureaux under the immediate control of the dictator himself. They were barred from forming a cabinet and from acting in any collective capacity whatever, and were hedged in by overlapping jurisdictions and duplicated responsibilities. This peculiar feature of Napoleon's dictatorial administration was appropriately called "gemination." None among the ministers could rise to political power. Fouché and Talleyrand, who attempted to become independent, were dismissed in disgrace. The bureaucracy was efficient, competent, honest, yet without political influence. By repeated purges the bench was thoroughly coordinated. Napoleon's creative power in administration was at its best in the institution of the Conseil d'État. In this admirable body of administrative technicians Napoleon was, at least during the first years, master and disciple at the same time. In collaboration with this model of a deliberative parliament, though without politicians, he laid the lasting foundations of the civil structure of modern France.

This astonishing system of interdependence between personal servants, a permanent ministerial bureaucracy of outstanding merit, and shrewdly deadlocked or domesticated political assemblies, gives the highest credit to Napoleon's genius in civil government. The administrative machinery of France responded without friction or loss of energy to the slightest pressure by the dictator, even during his prolonged absence from his capital on his campaigns. Simultaneously constitutional lawyer, astute bureaucrat, resourceful administrator, keen observer of human nature who knew how to use and where to use men, Napoleon regimented the entire public and social life of France. He built up and operated supremely over a period of almost fifteen years a governmental

apparatus of maximal efficiency, the working of which was made contingent on his action alone. Latter-day dictators have copied many a leaf from Napoleon's book on governmental technique which reads, to the contemporary observer, like thrilling constitutional fiction.

## II

After this summary description of the institutional mechanism and the governmental technique by which Napoleon ruled France, it is the objective of this essay to investigate by what methods he gained and maintained, and how he subsequently lost, the control of public opinion.

There is no doubt that Napoleon, when taking the reins of France on Brumaire 18, was greeted with almost universal relief. Once more the military hero emerged as the savior of the country from revolutionary anarchy and economic ruin. He lived up to these expectations, for by 1802 the country was wholly pacified. After Marengo a glorious peace was won and a new prosperity settled upon the country. Grateful admiration of the nation was its sincere reward. Because the strong man's government guaranteed the preservation of the economic status quo, the regime met with enthusiastic support from practically every section of the people.

This nationwide adherence of public opinion is clearly illustrated by the results of the three plebiscites held in 1800, 1802 and 1804. To a still unbroken revolutionary tradition the plebiscitary technique recommended itself as an obviously genuine application of democratic ideology. From the legal viewpoint popular acceptance of the new constitution was tantamount to a vindication of any violation of legality by which the dictator had gained power. But the plebiscite went far beyond the customary concept of a popular vote on an abstract constitutional document. Embodying, by its results, an acclamation in favor of a specific person, and giving unconditional confidence in advance to his future program, the plebiscite, for the first time in modern history, organized a

new political system. For dictatorial government based on popular approval as manifested in plebiscites French writers have coined the appropriate term of Caesaristic regime. While the plebiscite of 1800 still maintained the appearance of a vote on a constitutional instrument as such, the votes taken in 1802 and 1804 were focused on the person of Napoleon alone. Thus the plebiscitary consent of the whole people conferred democratically upon the new Caesar the title of the elect of the nation, giving him spiritual power equal to the divine rights of the hereditary monarch, and each successive plebiscite confirmed him as the sole representative of the nation. A new mythology was created by which he acquired, by law as well as in fact, the moral prerequisites of his absolute powers. Latter-day repetitions of the Caesaristic plebiscite clearly demonstrate this mythological function of a perverted democratic principle.

In each case the Napoleonic plebiscites yielded huge majorities for the regime, and the dissenting minorities were numerically insignificant. The votes cast in favor of constitution VIII (1800) were 3,011,007 to 1,562; in 1802, for the consulate for life, the votes were 3,568,865 to 8,360. Among the "no's" was that of the gallant Lafayette, who addressed to Napoleon a notable letter animated by a manly defense of freedom. The imperial constitution (1804) was confirmed by 3,572,329 to 2,569.

It is true that the three plebiscites were objectionable enough from the viewpoint of modern plebiscitary technique. The vote was taken by open inscription in public registers; registration by proxy was permitted and freely used. Moreover, in 1800 and 1804, the nation voted on a *fait accompli*; the government commanding the administrative machinery exercised a good deal of influence and pressure, to say the least, and the figures collected by senatorial committees were far from reliable.

Under conditions allowing for a free expression of public opinion the negative votes would assuredly have been very considerably higher. Yet there is no doubt that at least in 1800 and 1802—when the plot of rue St. Nicaise aroused widespread fear for the life of the First Consul—the result of the vote was in accordance

with public opinion. Even in 1804, although the establishment of the empire alienated many friends from Napoleon, the bulk of the nation endorsed the logical outcome of his unprecedented achievements in war and in peace. He put the imperial crown on his head by his own hand, after he had proved himself in a hundred battles and had laid lasting foundations for the social order of France.

When comparing Napoleon's regime with modern dictatorships it would, however, be utterly misleading to assume that he encountered no opposition, legal or illegal, during his reign.

Legitimate opposition was located, but also localized, in the political assemblies provided for by the constitution. It has already been pointed out how political opposition of the constituted bodies was eliminated, either by persuasion exercised in the form of patronage and favoritism, as in the case of the Senate and Corps Législatif, or by intimidation and constitutional tricks, which in the course of a few years crippled the opposition in the Tribunat. After 1806 Napoleon had reached his initial goal. Organized opposition was crushed, and even any contradictory voice in the parliamentary assemblies was silenced. Henceforward they reflected only the official opinion of the state as it happened to be formulated by the dictator.

Thus deprived of any means of legal expression, opposition naturally was driven underground. After his advent to power Napoleon immediately turned to stamp out the professional gangsterism and brigandage rife all over the country, and he annihilated as well the brigandage of political tinge called *chouanerie*. Royalists and emigrants, backed by England, were still a moral force, but they were bought by amnesties and favors and subdued by clemency. During the consulate they were more dangerous than the radicals of the left. After 1804, however, most of them had made their peace with the regime and joined the ranks of the new nobility based on civil or military merit and grouped around the pompous court of the emperor, perhaps secretly ridiculing the usurper and his grandiloquent style of living but only too willing to draw the maximum of benefit from the rays of his grace.

On the other hand, in 1799 Jacobin radicalism had already played its last trump and by its gruesome past had forfeited any chance it might have with the frightened bourgeoisie. Since Napoleon feared the Jacobins more than the royalists, his Minister of Police, Fouché, persecuted his former friends relentlessly, as it behooved a zealous renegade, and he achieved his object of crushing them completely.

Yet an endless chain of plots and conspiracies marked the progress of the regime, some of them staged, for obvious political reasons, with more or less skill by the police. A few, however, were serious attempts on the life of the dictator or endeavors to wreck the regime. On December 24, 1800, Napoleon, in the rue St. Nicaise, miraculously escaped a royalist bomb aimed at him and costing more than fifty lives, and again in 1803/04 the widespread and well prepared conspiracy of the head of the Chouans, Georges Cadoudal, was a dangerous undertaking against the very existence of the regime. Napoleon exploited it masterfully for the elimination of his only competitor in popular esteem, General Moreau, the victor of Hohenlinden, and it greatly aided his plans for the establishment of the empire. Of the two conspiracies of General Mallet (1808 and 1812), the latter, staged while Napoleon campaigned in Russia, failed only by an inch and evinced clearly the weakness of the already tottering dictatorship. Asked during the trial by the president of the court who were his allies, the accused answered: "You and the whole of France, if I had succeeded."

On the whole, however, the regime was never seriously endangered internally and demonstrated an unshakeable stability against any possible attacks from within. This striking result was due partly to the apathetic attitude of the public, although very often aloofness from politics appears as genuine acquiescence to a regime. But real credit for the apparent calm prevailing in France during these long years must be given largely to the vigilance of an admirably organized political police and to the rigorous suppression of independent public opinion, which was subjected to control ranging from benevolent supervision to open terror.

After Brumaire 18 Napoleon struck a well studied liberal attitude. He recalled the emigres, melodramatically released political prisoners and abolished some of the most offensive laws of the Directory. Meanwhile Fouché made his first drive against the "Reds." Sixty-one of the opposition deputies of St. Cloud were incarcerated and the first list of proscriptions was drawn up. After the plot of the rue St. Nicaise a new wave of terror against real and alleged enemies of the regime began. One hundred and thirty republicans and democrats were deported without trial, destined to perish miserably in the colonies, and the radical opposition was smashed to pieces. In connection with the Cadoudal conspiracy the terror was renewed, and it culminated in the abduction and assassination of the Duc d'Enghien (March 21, 1804), an event which Fouché is said to have characterized by the dictum: "C'est plus d'un crime, c'est une faute." The ghost of the unfortunate Bourbon still haunted Napoleon at St. Helena. In 1810 Fouché's successor, Savary, again subdued the nation, which was becoming more and more restless, by a recrudescence of savage terror. Fouché's invisible yet almighty and all-present police covered the country with a cobweb of spies and *agents provocateurs*, and no vile means of denunciation and calumny was left untried. The whole nation was in the grip of a merciless G.P.U., in addition to which some of the ministries and the emperor himself maintained their own police. It was not the prestige of Napoleon or the glory of his military achievements which held the nation spellbound; the secret police of the state terrorized public opinion into silent acceptance of his iron rule. It became a myth of horrible reality, the mere existence of which sufficed, after 1810, without resorting again to open terror.

For its vast repertory of devices of political suppression Napoleon's regime is surpassed by no subsequent dictatorial government. In due course all of the abuses of the *ancien régime* reappeared, but they were embodied in a system of legalized practice. Among the measures of arbitrariness may be cited: deportation to unsalubrious colonies, imprisonment in France for an indefinite

period without due process or even trial, internment in a lunatic asylum, and renewal of the dreaded *lettres de cachet*. When the well known poet Delorgues was served a lemonade in a coffee-house he spat the rind of the lemon on the floor while indulging in the pun: "Je n'aime pas l'écorce." This homonymous reflection on the sacrosanct person of the Corsican dictator was sufficient to bring its author to the lunatic asylum of Charenton, where he died miserably. By the ominous decree on the state prisons of March 3, 1810, the practice of arbitrary detention for an indefinite period without trial was finally legalized. It is one of the most ignoble legal documents in the history of a civilized nation.

Among the minor evils inflicted upon enemies of the state were banishment to a designated place in the provinces, under the surveillance of police—which occurred almost daily—and exile from France, a practice of which the case of Madame de Staël became a famous example. Frequently extraordinary tribunals and court-martial took the place of the ordinary courts, while trial by jury was suspended over long periods and even the principle of "chose jugée" was officially discarded. By the penal laws, especially the new criminal codes, the rights of the accused were severely curtailed, and almost barbaric punishments were reintroduced, as is characteristic of the "virility" of dictatorial world-concepts. That in criminal cases torture was applied, for instance in the Cadoudal trial, is an established fact. Napoleon himself, in one of his letters, had recommended it strongly. He had not refrained from bringing direct pressure on Moreau's judges in order to cause a conviction of the competitor, whom careful historical investigation has absolved from any complicity in the Cadoudal conspiracy.

There was no longer any question of the individual rights for which the French Revolution had shed its best blood, no liberty of speech, assembly, association, or freedom from arrest. The spirit governing the administration of political justice cannot be characterized better than by the words of the president of the senatorial committee which by a misnomer was styled "on individual liberty": "Si la liberté individuelle est le premier besoin des

hommes en société, la sûreté de l'état est le premier besoin des gouvernements."

From the very outset Napoleon realized that his regime could endure only if he suppressed the free expression of public opinion. As early as January 1800 the regimentation of the press began. In Paris alone of seventy-three political newspapers only four survived, and those which were allowed to remain were subjected to rigid censorship. Editors were named by the government, or at least they had to prove their political reliability. An almost anarchical arbitrariness existed because of the competitive interference of different authorities, one overruling the other. Finally the famous decree on the press of February 5, 1810, perhaps the most elaborate code existing on this subject, provided a legal basis for the control of the spirit. The new "Direction Générale de l'Imprimairie et de la Librairie" imposed upon newspapers, periodicals, books, pamphlets—political, religious, or general—as well as on editors, publishers, printers, authors, booksellers, the most rigorous regimentation and supervision. Proofs were to be submitted to the censors; heavy punishments, such as confiscation, fines, imprisonment, breaking of printing machines, threatened the offender. The entire press became an instrument of official policy under the motto: "Écrire sans penser." Similarly the theaters came under regimentation, and the managers were nothing short of public officials, presenting to the theater-loving Frenchmen only such plays as found favor in the eyes of the censors.

At all times censors are particularly stupid, and the imperial censors were no exception to the rule. There were countless exhilarating episodes in the assiduous chase for hidden allusions dangerous to the regime, and even the French classics were purged. It goes without saying that in the subjected or allied parts of Germany plays by Friedrich Schiller, such as *Die Räuber* or *Wilhelm Tell*, and Goethe's *Faust* were prohibited.

Yet the government did not confine its zeal to the task of suppression. On the contrary, it acted more and more in the capacity of a ministry for enlightenment and propaganda. The press was

used to glorify the blessings of the regime and to inculcate in the nation allegiance to the emperor, his dynasty and his government. Napoleon himself may have felt the need for what in modern dictatorships is humorously called "constructive criticism." Paid scribes extolled, in the press and on the stage, the emperor and his achievements. Public opinion was fed with official lies and public fraud. The dullness of the officialized press and the sterility of the officially admitted literature compared most unfavorably with the sparkling wit and the spirited liveliness of past French writers. Since the implacable hatred of the dictator persecuted the "liberals" and "metaphysicians," the only outstanding authors of the period, Chateaubriand and Madame de Staël were in disgrace or wrote in exile. By 1810 the thorough muzzling of public opinion had transformed glowing France into a cemetery of the spirit.

Thus public opinion, deprived of independent expression, was forged into a subservient tool of the dictatorial government. It ceased to be indicative of the true state of mind of the nation. It is characteristic of dictatorships that they cannot allow free expression of public opinion lest the exposure of their manifest defects would be lethal to the regime, and yet they are unaware of the real trend of public opinion, which needs an outlet for dissatisfaction and independent criticism lest they be stored up for explosion at the least desirable moment.

### III

Since this study is not concerned with the function of the supernormal mind we are interested in Napoleon's psychology only in so far as it bears on the mechanism of his dictatorial government and its reaction to public opinion. It is beyond doubt that Napoleon found in the specific structure of his government genuine self-realization of his unique genius. His superlative military qualities are undisputed, at least until after Austerlitz (1805); also in civil affairs his personality reveals an unparalleled statesmanship, at least during the consulate. The government of France was a perfectly constructed machine which carried his will to the last

village of his vast empire. This admirable governmental mechanism was the result of his creative mind alone.

No attempt shall be made here to describe Napoleon's psychic structure, since the best pens of a century and more have striven in vain to agree. An almost superhuman intelligence, combining constructive imagination with a deep conception of reality, an indefatigable capacity for work which encompassed matters of the highest political implications, such as the foundation of a new state, as well as seemingly minor details of administration, such as the regulation of the price for seats in the *Comédie Française*, an inexhaustible will power, coupled with swiftness of decision, were some of the essential qualities by which the dictatorial government was created as an accurate apparatus obeying the law of causality. His was the focalization of vitality. The resources of his military mind were utilized for the organization and manipulation of civil government. Perhaps the most striking feature consists in the fact that the powerful bureaucracy, indispensable for the totalitarian administration, at no time outgrew its creator, and that his genius as a statesman was at its best in the selection of his collaborators and servants. An ingenious variety of technical devices, such as centralized hierarchy, concentration, or, as the case might be, division of responsibility and duplication of control, enabled him to rule and govern. The mechanism of government worked almost automatically, and when he was absent on his campaigns a system of communication, organized to the last detail, kept him in contact with the minutest items of the French government. Fouché's secret dispatches, arriving daily by special couriers at General Headquarters, are a priceless source for the understanding of this technical problem. The governmental system was so perfectly adjusted to his personality that his will and spirit pervaded the entire fabric of the state and his invisible presence vitalized the last of his servants.

Yet this unequaled system of government broke down and was shattered to pieces because Napoleon was devoid of two of the essential qualities of the great statesman, namely idealism and

moderation. As to the first, his cynical realism, suspicious toward men and lacking a sense of absolute values, knew of no other aim than his own demonic ambition and his own unholy glorification. Disloyal to the ideals of the French Revolution, the inheritance of which was the most precious asset of his advent to power, he was equally remote from genuine appreciation of the lasting values of tradition and from the true necessities of national history. At St. Helena he made the world believe that his ultimate goal was the United States of Europe, but this pious lie for self-justification is clearly at variance with his acts. Not even his adopted country was for him a value in itself. He remained what he was from the beginning, a foreign-born Frenchman.

That he was devoid of moderation was due simply to his unbalanced nature and temperamental structure. Only during the first years of the consulate did he overcome his inherent distrust of others and, restraining his belief in himself alone, sought and took advice. It was during this short period, when his decisions ripened after careful preparation of the basic materials by experts who knew better, that works were created which outlived him. After 1802 he went beyond the providential limits set for human nature and he became, driven by lust for power, a despot, an autocrat, a monomaniac, a megalomaniac, inevitably bound to ruin himself and his country. His system of government was a unique experiment which could not but disappear with its creator. The founding of a dynasty and the much ridiculed adoption of legitimistic paraphernalia were doomed from the outset. He foundered on his very nature, because of his boundless ambition and the narrow-mindedness of a soldier thinking only in military terms and conceiving only military solutions. War was the element of his life, and the government of France was only the background for his military achievements. If he had entertained a more benevolent understanding of human needs and less contempt for human nature, his genius in civil matters could have laid the foundations for a lasting edifice of government.

Napoleon had much too realistic a mind not to know that with-

out him his government was a soulless body. Few things, therefore, occupied his thoughts more than the problem of permanence of his regime. In dictatorships the question of succession remains forever crucial. With utmost ingenuity he conceived as the two pillars on which the regime should rest the creation of a new dynasty and of a new aristocracy. In both he failed. While during the consulate the selection of his successor was envisaged in an elaborate system of constitutional provisions based on his last will, the question took, in 1804, the dynastic turn customary in the age of monarchy. During the second half of his reign many of his political moves revolved around the ambition to create a new legitimism for his family and they culminated in his marriage to the Austrian princess, Marie Louise. Yet the nation remained completely indifferent to the dynastic idea centered around the usurper. Despite the obsequious adulation of many a paid and unpaid quilldriver, for the people the imperial marriage and the birth of the King of Rome were little more than entertaining spectacles. Despite his laborious efforts the fourth dynasty of France disappeared with its creator. The inexorable law of dictatorships asserted itself again. An artificial imitation of what only tradition and organic growth could make enduring was imposed upon the nation by the logic of force, and it could never implant itself.

No less fragile was the other pillar intended for permanence. Realizing the vulnerability of his regime, Napoleon planned to enlarge the social basis of his government by creating a new nobility. Its nucleus was formed by the military order of the Legion of Honor. It constituted in fact a new elite of soldierly merit around which was grouped a large aristocracy of high officials and bureaucrats. Here again the conceptual structure broke down, because the new nobility was based on personal allegiance to the master, who alone could bestow power and distinction, and not on the abstract principles of duty toward the state or tradition. Endless care was devoted to creating an intricate hierarchical order of the new nobility organized in knights, barons, counts, dukes. Many of the new offices entailed a feudal property, according to Napo-

leon's maxim: "Qui a de l'argent, a des hommes." But honors, titles, pensions and donations could not create a genuine attachment and loyalty among the avid horde. Patriotism was a matter of personal gain. The regime was founded on Napoleon's cynical assumption of the vanity, venality and selfishness of men, and selfishness prevailed to the end. Despite the generous gifts looted from Europe and liberally distributed among his friends, despite the solemn oath of imperturbable allegiance which each official had to swear, the nobility, his generals and courtesans deserted him, the defeated eagle. By a devastating indictment of his violations of the constitution the Senate declared, on April 3, 1814, that his title to the throne was forfeited, the same senators upon whom, as his accomplices, he had heaped countless favors. This shameless document fits significantly into the picture of moral corruption invariably emanating from unrestricted dictatorship.

The manifold causes for the ultimate breakdown of Napoleon's dictatorial regime are too well known to be restated here. In fact, Trafalgar was the turning point; after Nelson's victory England was immune to defeat. To the implacable opposition of the British lion was added the hostility of the church, unbending to the totalitarian demands and mobilizing against the secular exactions of the state the spiritual resistance of eternal ideas. Yet another factor contributing to Napoleon's doom is often overlooked. France was utterly exhausted, physically and economically as well as morally, and what is of even greater importance, the dictator himself had depleted his mental resources. By an almost inconceivable strain over more than fifteen years, even the superman had overtaxed his strength. The fatigued emperor in Moscow was different from the fiery general at Marengo.

The real cause, however, of the downfall of the empire was the fact that Napoleon failed utterly to reconcile public opinion to his dictatorship. In the long run this admirable machinery for molding and suppressing the popular mind had achieved nothing but the complete isolation of the nation from the ruler and of the ruler from the nation. It is true that Napoleon stamped out open op-

position and that he restrained successfully the more dangerous clandestine enemies. During the years from 1802 to 1806, when his power was at its height, glory and prosperity were the price which the nation willingly accepted for the loss of freedom, in the words of Lamartine, "the burial of liberty in a flag of glory." The new society flocked to the new court, the army, after the elimination of republican resistance among the higher ranks, adored its hero, and—most amazing fact of all—the urban laborer, especially in Paris, was his steadfast partisan. Napoleon had given to the nation the enjoyment of the property acquired during the revolution and he maintained an efficient administration. But after 1804 he estranged himself more and more from his people. Certainly the nation was impressed by the pompous magnificence of his court, the stiff ceremony of which contrasted strongly with the healthy vitality of the contemporary bourgeois society. But he remained what he was by birth and nature, a stranger who affected the simplicity of a coarse soldier, although by looting the conquered territories he was one of the richest men of his time. The mass of the average people, who alone count, were certainly alive to his greatness manifested in his victories and the hegemony of France in Europe. The flamboyant style of the regime, which was adequately called "Empire," is clearly reflected in its edifices, public works, and the buskined shallowness of letters and art. No truer symbol of this body politic exists than the Arc de Triomphe, over-towering churches and palaces, "monumentum aere perennius." The French admired the glamor of the shining spectacle but it left them unmoved and cold. From 1806 onward the whole empire assumed an appearance of ghostly unreality. There was no sense of stability and permanence; no one believed it would last, and when, at the glorious meeting at Erfurt (September-October, 1808) his power seemed at its summit, the fingers of destiny had already written the inscrutable letters on the wall.

Absolute power corrupts even the genius. While Napoleon had bestowed on the citizens a rational calculability of civil life, the superman himself was not bound by the laws he laid down. More

and more, after 1804, he became *hors de loi*. Not only did his southern temperament, uncontrolled by moral standards, make him lose frequently the dignity of personal behavior which befitted his office; the numerous violations of the constitution, the breach of the Concordat, the endless illegalities, could not but estrange the affections of his people. It was arbitrariness in the guise of the reason of state, such as the assassination of the Duc d'Enghien or the divorce from Josephine, which turned hearts against him. He horrified the primitive emotions. He was feared and admired, but not loved. He stirred deeply the imagination of an imaginative nation, but despite or because of the deification of his person he was unable to evoke sincere attachment. His glory became pallid under the Spanish sun and on the Russian snow-fields; he was alone and lost, deserted by his friends and his people. During the *Cent Jours* he attempted in vain to liberalize his rule and to give public opinion a fair share in public affairs. It was too late, and no one believed in the sincerity of the change. How could the despotic ruler govern as a constitutional monarch?

The Napoleonic legend is an artificial invention of the nineteenth century. During his lifetime he was a nightmare, from which France awoke to new life. What he had devoted most of his labor to, the formation of the public mind, proved to be the cause of his doom. No government can be built upon a foundation which is not rooted in the genuine consent of uncoerced public opinion. Public opinion, however, had weighed the Caesaristic regime in the balance and found it wanting. Here again history is just about as repetitious as it is reputed to be. This unique system of government constructed by a genius for the use of genius was an empty shell without the vitalizing force of the genuine adherence of public opinion, which the dictator had so successfully striven to eliminate. Thus the dictatorship of Napoleon the First was destroyed by its own mechanism.

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# THE RATIONAL AND THE IRRATIONAL IN SOCIETY

BY CARL MAYER

THE following considerations are meant to be a contribution to what I should like to call an "ontology of society." They are an attempt at a structural analysis in terms of the function that the "rational" and the "irrational" may exercise in building up human society. The presupposition upon which they rest is the recognition that human society is a phenomenon *sui generis*, independent of its various manifestations, having a structure of its own, and the conviction that, accordingly, studies can and should be made in evolving the specific character of this structure.

## I

In order to be able to decide what function the "rational" and the "irrational" may exercise in the framework of human society it is first necessary to inquire into the problem of what constitutes society. For it is in the answer to this problem that the clue to an understanding of the specific problem of the relationship of the rational and the irrational in society is to be found.

Though the problem of what constitutes society, that is, the problem of the forces in which the phenomenon of human society takes form, is complicated and intricate and obscure in many ways, the general outline of the problem stands out very clearly. There are three forces which fundamentally constitute society: *religion*, *tradition* and *power*. How and why? Stated in a most dogmatic way, the following may be said.

Religion appears to be the condition of the possibility for human society to exist as such. Religion, in other words, makes society possible, that is, it makes it possible for there to be a social whole as a unity in itself. The reason for this relationship between religion and society lies in the peculiar character of human society, in

the desperate situation in which human society always finds itself, as a result of the fact that it is always and everywhere threatened by the egoistic and anarchic forces of human nature. We may explain this situation in different ways: with Bergson, for example, we may point out that the dawn in man of reason has disrupted or always tends to disrupt the originally given social whole; or we may point, with Scheler, to the general character of human nature which in itself is chaotic and egoistic. In any case, it is this desperate situation which makes it imperative that there be a force, higher than the forces of nature and the natural forces in man, which continually offsets this danger inherent in human society. This force can ultimately be provided only by religion; or, more exactly, this force is religion. For religion is the "higher reality," which is "real" as well as "higher," which is objective and transcendent, that is needed by society.<sup>1</sup> Thus we may say that society is *founded* in religion.

Tradition—again not an accidental, but a fundamental or constitutive force in human society—appears to be that force which grants to society its *substance*. That is to say, it is that force which gives to human society the possibility of an objective existence. The reason lies again in the peculiarity of human society, in the fact that human society is historical in its nature, that it lives in the horizon, or dimension, or the depth of "time."<sup>2</sup> It is, of necessity, "concrete" in its structure, not only in the figurative but in the literal sense of the word—a thing "grown together,"

<sup>1</sup> It is the business of a sociology of religion to show in detail how religion works to counterbalance the egoistic and anarchic temptations of man, how it furnishes the means and methods for keeping the social fabric together by creating, for example, social confidence, social obligation, the forces of sacrifice, love, tabu and so forth. In the present context it is intended only to indicate in very abstract terms that religion is a constitutive force or factor in the framework of human society.

<sup>2</sup> It has been the particular merit of the romantic school, and its representatives in sociological thought in particular, and of Burke, emphasizing a concrete conservatism, and finally of the Christian traditionalism of de Bonald and de Maistre, to have pointed to this character of human society—over against the ideas of the various naturalistic and anti-historical schools—although they have not made much of their discovery, except in politics.

meaning that it is determined in its present by a past in form and material. Being this "concrete" phenomenon, existing in and through time, it cannot, obviously, live from the nothingness of the mere present. It needs and calls for an element by which and through which it is possible to acquire the past and carry it on into the present and to carry the present into the future. Hence the necessity of tradition. For tradition is that force which, by its very nature, links the past with the present and the present with the future and, in so doing, creates the substance from which society is then able to live. It creates, to give examples, continuity and stability, it institutes customs and manners, it introduces the forces of piety and reverence, even awe-forms, or ways in which the "substance" is provided for society to live and develop. Thus we may say that society, while it is founded in religion, *exists in and lives through* tradition.

Power, finally, is that force which *integrates* human society and, in so doing, gives it a "structure" or "order." The reason for this lies in a third characteristic feature of human society, namely, the fact that human society is "reality" or "existence" or, in another expression, belongs to the world of nature, not to the world of spirit. This means that society is intrinsically chaotic. Left to itself it would fall into the anarchy of the mere struggle for existence and thus destroy itself. It is in this situation that the necessity for power springs up. For power—at least as far as we know—is the only force that on the one hand prevents society from falling into the mere anarchic naturalism of the struggle for existence and, on the other hand, is able to shape, form, fashion society into a structural order. It sets up the "state," it provides the basis for "stratification" and, in many and different and sometimes disguised and hidden ways, furnishes all the material necessary to build up an ordered society. So far as we know, there is no other force capable of fulfilling this function, and thus power is in society an element of inevitable necessity.<sup>1</sup> As one writer has put it, power *is* social

<sup>1</sup> Cf. Tillich, P., "Power" in *The Interpretation of History* (New York 1936), and Weber, Max, *Wirtschaft und Gesellschaft* (Tübingen 1925) pp. 603 ff.

existence. Thus we may say finally that society is built up or is formed by power.

So far we have tried to analyze the forces that constitute the phenomenon of human society. The result has been: that society is constituted by religion, inasmuch as religion provides the unit, by tradition, inasmuch as tradition provides the substance, and by power, inasmuch as power provides the structure, and that therefore religion, tradition and power appear to be the constitutive forces of human society as such. The question now is whether these forces are rational or irrational and whether, therefore, society itself is fundamentally rational or irrational.

It is obvious that religion is not identical with reason; nor can it be derived from it, whatever its relationship may be in detail. Religion is outside the reach of the rational or of reason, being itself transcendent and objective, the very opposite of the immanence and subjectivity of reason. The same appears to be true of tradition. Tradition too is beyond the framework of reason. Seen from the angle of reason, tradition, since it is founded in time and is a force of history, appears to be the mere *hic et nunc*, to be individual and concrete, to be only an "event," in contrast to the characteristics of necessity, abstraction and the "general" which are the attributes of reason. And finally, as to power, it too cannot be derived from, reduced to or explained by reason. For power is to reason a *brutum factum*, originating in "existence" and in contingency and essentially lacking the character of an "essentia," which it should have if it were to spring from reason.

Since the factors that constitute society do not originate in reason, since they are not rational, what then are they? Negatively speaking, they are of a non-rational or of an irrational character, meaning that they spring from, and are elements of, something outside of reason. This, however, is only a negative definition. Religion, tradition and power are not merely and not primarily of a negative character. They are not negative, they are positive; they are not limitations, they are sources; they are not remnants but origin. Hence it is necessary to supplement the negative defi-

nition with a positive one. Positively speaking, then, we may say that the forces constituting human society spring from, and are elements of, "being."

Thus we are now in a position to establish a first thesis regarding the problem of the function of the rational and the irrational in society: society *originates in* "being," not in reason.

## II

If society is founded in "being," what then is the place and the function of reason in society? Where does it belong and in what way does it operate in the framework of society?

First, reason does not form a constitutive element from which society originates. Its place is *within* the given framework of society. It operates *upon* the given basis, which has to be provided by "being." Its place, therefore, is secondary, not primary in the building up of society.

The reason for this situation is given in the specific nature of human reason. As has very clearly been established,<sup>1</sup> human reason is characterized by the fact that there are definite limits in its scope, range and power, or rather, that certain conditions must be fulfilled if human reason is to work adequately. Human reason is always related to "being," that is, to "existence" and "transcendence." It exists only in so far as it is related to "being." Only in this way can it exist as a real power, can it realize itself. Hence it is dependent upon and secondary to being. The consequence, then, is that being is always prior to reason, that it takes precedence over reason and, secondly, that reason itself can never create or provide the ground or the basis which is essential to its operation.

Thus the function of reason in society seems to me to lie in the following. Reason brings society *to itself* in two ways: first in

<sup>1</sup> Here I may refer to the work done in the field of epistemology by E. Lask (*Die Logik der Philosophie und die Kategorienlehre*, Tübingen 1911) and N. von Hartmann (*Metaphysik der Erkenntnis*, Berlin 1921), and to the work done in the field of ontology and metaphysics by K. Jasper (*Philosophie*, 3 vols., Berlin 1931, and *Vernunft und Existenz*, Groningen 1935). What I am trying to do is to apply their findings to sociology.

*theoretical explanation*, and second in *practical rational action*. In the first process society tries to express, and in expressing to understand, its underlying existential structure, thus satisfying the fundamental urge of being to express itself and to elucidate itself in reason. In this process the attempt is made to understand religion and its function in society in rational terms, to elucidate rationally the nature and function of tradition, to solve the problem of why power exists. Either rational justification of existence or rational criticism of it may be the consequence. The phenomenon of "Enlightenment" in a society may serve as a general example of this process which permeates the structure of society in a thousand different ways.

In the second process society employs reason in the attempt to shape society itself, practically and actually, by rational human effort. Examples of this may be found in the adaptation of a society to newly emerging circumstances, or in the establishment of a rational active "leadership" in the creation of rational "progress" or in the attempt at a rational "planning" of society. The most general expression of this application of reason in practical social action is to be found, however, in that general rational process toward objectivation or rationalization which we can observe in the dynamics of almost every society; one of the most interesting illustrations of this is the way in which, for example, a religious community is turned from the original shape of "sect" into the rationalized shape of a "church," in accordance with society's tendency always to objectify, project, throw into rational shape what has hitherto been only given.<sup>1</sup>

It is in this twofold process that reason, in bringing society to the consciousness of itself, makes it possible for freedom to exist in society. But at the same time it sows the seed of destruction, it prepares for the dissolution of the constitutive factors upon which society necessarily rests and is inevitably dependent. This is a dia-

<sup>1</sup> Cf. Mayer, Carl, *Sekte und Kirche* (Heidelberg 1933). Remarks about the process of objectivation and the problems involved in it may be found in Max Weber, Simmel, Troeltsch.

lectical process in the function of reason in society, which can be observed in many instances. It can be seen, for example, in the way in which the process of elucidation turns into the process of criticism and theoretical destruction of the foundations which have been made understood, and yet not quite understood; or in the process in which the rationalizing of society tends not only to shape but to replace, to substitute, the given existence, a process which, theoretically and abstractly speaking, will in the last resort dissolve society unless it is checked or hampered or offset by the development of new existential forces which may create, irrationally, a new foundation or basis upon which society may rest once more.

Thus we may now draw a second conclusion as to the problem of the function of the rational and the irrational in society: society, while it is based upon being, expresses itself and tends to dissolve or destroy itself in reason.

### III

Society thus consists of two factors: being and reason (in the sense of *ratio*). The function of the one is to provide the foundation, that is, the constitutive factors or forces, upon which society is established. The function of the other is to express, to elucidate and to rationalize and, eventually, to destroy the existential basis. Using Marxian terms we may also say, though not quite adequately, that the one creates the "structure," the other the "superstructure" of society. It follows from this that both are necessary and neither can be dispensed with. Being is necessary in order that there may be that existential basis upon which alone reason can operate. Reason is necessary in order that there may be that medium in which the basis expresses itself, unfolds itself and destroys itself. Without the one there would be no existence as such for society, for reason can never be in a position to establish the basis or to establish existence; this idea is a *limine* excluded by the very nature of reason. Without the other there would be no possibility of a "representation" of being in society, for being

cannot represent or express itself; such a situation could exclude the very possibility of human society as such, that is, the possibility of freedom and the possibility of destruction. All of this means then that as being and reason are necessary they are at the same time mutually dependent and not interchangeable.

Thus it appears that society itself is a mixture. It is not only being and it is not only reason. It is being *and* reason. Its real life extends between both, or more exactly, has its existence in the way in which these two factors are combined with each other, cooperate with each other or struggle against each other. Therefore its inner structure or law, that is, the way in which it evolves, develops, declines, can be fully understood only if we take into careful consideration the fact that society is this mixture. Hence the necessity of a theoretical approach which, equally remote from mere rationalism and from irrationalism, is based on the recognition that society is both being and reason.

Finally, it seems to me that this situation indicates what may be called the inner problemacy of human society. For this problemacy exists in the fact that in society there is no identity between being and reason,<sup>1</sup> and that no identity can be established. There is a hopeless dualism never to be transcended, a *hiatus irrationalis*, between the two, which fundamentally cannot be bridged. Hence the fact that society is no mere "essentia"; hence the fact that in society the highest commands of life—the "just," the "ideal," and so forth—can never be really established but can only be approached in an endless and necessarily unsuccessful struggle; hence the fact that society belongs to the order of "fallen nature," and is therefore inevitably man's greatest work and at the same time his greatest failure and frustration.<sup>2</sup>

<sup>1</sup> As there is, for example, in mathematics or in works of art.

<sup>2</sup> It is the task of social philosophy to evolve, develop and work out in detail the problems mentioned here. I wish only to make clear what the problem is and from what point such a philosophy would have to depart. If I am not mistaken, the most important beginnings in the direction of such a social philosophy have been made by R. Niebuhr in his various books and by Emil Brunner, *Das Gebot und die Ordnungen* (Tübingen 1932).

## IV

From this analysis of the character of society a number of consequences may be drawn with respect to a theory and philosophy of society. Two of them may be mentioned here. The one, bearing upon the epistemological problem, is the recognition that there are definite limits for a rational analysis of society. The other, bearing upon the problem of social action, is that there are definite limits also to rational social action.

In the field of epistemology the idea has been prevalent in sociology that in analyzing social phenomena the starting point has to be the framework of pure reason. It is thought that reason will furnish all the principles according to which social phenomena have to be grasped, understood and finally judged, that the mere application of these principles will enable us to decide what is true and what is not true, what is real and what is not real, what is necessary and what is accidental, what is constitutive and what is contingent, what is an idea and what is an ideology. In other words, a rational dismemberment of social phenomena is deemed to be the only way to achieve objective results and thus the only way possible for science.

Now if our analysis has been correct, the conclusion must be that an epistemological approach of this type is untenable. It is arbitrary and abstract, inasmuch as it does not take into due consideration the character or the inner structure of the subject with which it is dealing. Ultimately it would lead—and in fact has led in many cases—to nihilism in the strict sense of the word, meaning that what is real is taken as unreal, what is constitutive is taken as accidental, what is "being" is taken as "nothing." Nihilism, however, cannot be the basis of scientific theory.

A real theory has to be based upon the objectively given character of the subject involved. This means in our case that a theory of society has to be based, epistemologically, upon the following three principles. First, that there is "being," "existentiality," not identical with reason. Irrational as it is from the point of view of reason—though I venture to say it is not necessarily a-logical—

being has to be taken as such, that is, it has to be ultimately acknowledged. It is only on the basis of this acknowledgment of being that anything at all can be recognized or understood.<sup>1</sup> Second, that the frame of reference has to be taken from the objective structure of society, that is, that what is constitutive in society has to be recognized first of all. And third, that only on the basis of these two principles can rational analysis be established and usefully employed. In fact, it is only in this position that rational analysis can achieve real results, and therefore it is quite clear that this is not said to belittle the importance of rational critical analysis. On the contrary, it is said in order to give it a real significance in the whole of a theory of society.<sup>2</sup>

As to the second consequence to be drawn from our analysis, the idea has been advanced and entertained for a hundred and fifty years, and has only recently been renewed with new vigor,<sup>3</sup> that human society as such can be rationally made or "planned." It is taken for granted that the world can be put in order, that there is given to us the possibility of a "just" and an "ideal" ordering of society. Therefore what is necessary is only to apply reason to society and society will be arranged in the best possible way. In

<sup>1</sup>In the general epistemological field this means what has been expressed in the old Christian tenet: we do not know in order that we may believe, but we believe in order that we may know.

<sup>2</sup>Two examples may serve as illustrations of what I intend to say. First, the phenomenon of tradition can no longer be merely disregarded *because* it is tradition and as such imperceptible to reason. Investigation has to be made as to the place it occupies in the objective structure of the whole of society. Only then can it be decided whether it is constitutive of, and necessary for, society, or whether it can be disposed of as unnecessary and unimportant. If it is, as I believe, a necessary element, then the function of rational criticism would be to decide whether or not there is genuine tradition or degenerate tradition, in other words, whether the historical form tradition has taken is still suited to its task and function. A second example may be the phenomenon of honor. Instead of disposing of this phenomenon as "infantile illusion," as is usually done in the literature on the idea of the nation or on the principle of nationality, or in the studies of imperialism (see Schumpeter), it should be approached by asking what its objective character may be, what, then, its function in the whole structure of a given society; only then is it to be subjected to critical-rational analysis.

<sup>3</sup>Mannheim, K., *Mensch und Gesellschaft im Zeitalter des Umbaus* (Leyden 1935).

other words, society is a rational manageable mechanism to be mastered by the human mind. If there is not yet a perfect rational society it is only because man has not yet developed all his rational powers or because the dark forces of the given society have so far prevented it. Yet, eventually, the goal will be achieved and the ideal society will be given reality.

Now again, if our analysis is correct, this idea is untenable, and not only empirically but fundamentally. Not only has the human "ideal" society never been realized but, more than that, it can never be realized. If it were actualized the immediate consequence would necessarily be not order, but chaos, destruction and anarchy. What, then, is possible? Quite obviously, it is possible to plan and act rationally only *within* society. Society is not a manageable rational mechanism; it is the *Raum* in which alone rational construction becomes possible. Thus it follows that rational planning is of necessity always a planning in the medium of the given substance, not a planning of the substance of society itself, and that it is always of a fragmentary character. It is only *partikular*, and it cannot transcend the historical given moment; it is always historical, created by the given historical situation, and at its best is a creative answer to this situation. Within these limitations planning is possible, and not only possible but necessary or fundamental, since it is one of the highest forms in which reason applies itself to society. Beyond these boundaries, however, it would become utterly senseless. Planning is impossible as long as and in so far as human society is to continue as human society, with the deficiencies but also the dignity of human nature.

## v

Modern sociology in its main stream is a rational theory of society. It follows in a particularly close way the path of modern philosophic rationalism. Thus, based ultimately on the philosophic principle of the sufficient reason,<sup>1</sup> it assumes that society is funda-

<sup>1</sup> As stated by Leibnitz, "Ce principe est celui du besoin d'une raison suffisante pour qu'une chose existe, qu'un événement arrive, qu'une vérité ait lieu."

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mentally rational. The *eidos* of society, so to speak, is held to be rational. If there are a-rational or irrational elements they are only remnants, and therefore negligible. Perhaps they may be deplored, but eventually they will be overcome. Naturally, therefore, modern sociology is not in a position to account for the "irrational" in society in a sufficient and satisfactory way. This element is either wholly neglected, as in the optimistic-liberal branch of modern sociology, or, if it is seen, it is rationalized: either history, as the supposed seat of the irrational, becomes rationalized, or reason is made more than reason so that it covers the irrational in its own framework, as has been done in the drunkenness of Hegel's logic.

But *naturam expellas furca tamen usque recurret*. The irrational, thrown out of the window, creeps back at the door. Either it creeps into the rationalistic systems themselves, thus spoiling their purity, as in the case of Adam Smith who was compelled to take recourse to the idea of a prestabilized harmony, a *divina quadam providentia*, which alone could, in the last analysis, make society possible; or it breaks up the rationalistic systems, as has been the case in idealistic German philosophy or in the aftermath of Marxian sociology—thus creating a new irrationalistic philosophy and sociology, which, however, can be understood only as an opposition to the rationalistic stream and which thus, in substance, move on the same plane.

It seems, therefore, that the problem presses for a new solution. Beneath the surface of the official streams of modern philosophy and sociology a type of thinking has always been present which is equally remote from rationalism and from irrationalism. Represented by Pascal, by Bayle, by Vico, by Schelling, and perhaps today by the modern philosophy of *Existenz*, it has tried to be "realistic," yet only in the exact sense of the word: to take things as they are, that is, to realize that human nature—and in particular human society—is both reason *and* being or nature. It may be that the application of this type of thinking to sociology will help to develop new ideas and open new vistas.

# REFLECTIONS ON THE SOCIAL STRUCTURE IN CHINA<sup>1</sup>

BY K. BLOCH

## I

### *Government by Conquerors*

FOR the student of history the phenomena of the Great Conquerors of mankind are probably the most fascinating. Alexander the Great, Genghis Khan, Tamerlane, and their vast empires, though sometimes we may think of them as "vanitas vanitatum," defy our imagination and imprint on our minds an impression approaching the miraculous. For that very reason little has been done to study the working of their imperial governments. In this essay no attempt in that direction can be made, but it is important to visualize these empires of bygone times in order to realize certain typical features of China's social life; government by conquerors implies certain necessities which lead to traits common to all its variations.

The conqueror exacts tribute from the conquered, such tribute being applied to reward his minor brothers-in-arms, to maintain his empire and to expand its limits. What the conqueror wants is not a map painted in one color to indicate the extent of his dominion, but earthly, tangible goods and services. These fruits of victory cannot be gained by the sacking and burning of cities, the

<sup>1</sup> The following essay is an attempt to summarize the result of three years' more or less casual studies; as will be seen, its conclusions, to a large extent, are based on recent Chinese studies on the agrarian problems of China, for the translation of which my thanks are due to the collaboration of Chinese friends. The main theme of the essay is the problem of "original accumulation" in China, the study of which, in my opinion, ought to precede any systematic analysis of more recent stages of the social and economic system. The theoretical strife between Trotzkyists and Stalinists, namely whether China today presents a case of "feudal" or "Asiatic" society, is of no importance in this context; therefore the discussion is not referred to. Those who are interested in its results may consult K. A. Wittfogel, *Wirtschaft und Gesellschaft Chinas*, vol. 1 (Leipzig 1931).

devastation of the countryside and the wholesale murder of the conquered people, that is, by those events in a conqueror's career which are depicted gruesomely or triumphantly in general history; they must be earned by peaceful government established after the conquest, with this very end in mind.

Before the elaborate machinery of modern bureaucratic government had been developed in the west, starting from humble origins in the thirteenth century and reaching its full blossom in the twentieth, there was a comparatively uniform type of conqueror's government, already typically developed in the Persian satrapies, the Roman provincial prefectures, etc. The conqueror's government appointed a deputy representing all his power, generally backed up by a garrison army to be paid from the proceeds of the government over the subject territory; this representative usually had to pay annual sums to the conqueror's central exchequer.

The shortest formula expressing this type of government is probably the remark used by an Abyssinian emperor when he commissioned one of his "ras" to take charge of a province: "Go . . . and eat."<sup>1</sup> Naturally such deputies bore in mind that their tenure of office was dependent on the will and whim of the central ruling power, and that the viceroy of today could easily become the disliked private citizen of tomorrow, and they acted accordingly, wherever we meet them throughout history. Their abuses were a standing complaint of their subjects. While the central power got its dues, the viceroy filled his private pockets to provide against the future.

The last great and well known instance of this type of government was that of the Turkish empire before 1918; the Abyssinian empire, which was quite true to type, was generally hushed up for diplomatic reasons, whereas China, so far as I am aware, has not yet been grouped among the conquerors' empires. In many respects it seems likely that India too, before her thorough reorganization under British government, showed traces of being a part of Tamerlane's empire.

<sup>1</sup> Cf. H. Datley, *Slaves and Ivory* (London 1926) pp. 29 ff.

Such government by conquerors naturally needs something more than just an army and its commander. For in order to reap permanently the spoils of victory some kind of administration is inevitable, and such administration is possible only if the viceroy can gain access to the people governed by him, through regular channels. Whatever provinces have been conquered by force of arms have formerly had a definite social structure, with rich and poor, with an organization of production, with some kind of administration of the law, and so on.

Regular channels to appropriate part of the fruits of the subject people's labor for paying tribute and for filling the pockets of the viceroy, can be opened only by close cooperation between the conqueror's viceroy and the upper strata of the subject "native" society; for it is only through such cooperation that the conqueror can find access to the means of exploitation proper to each part of his empire. At the court of the conqueror himself, as well as at those of his viceroys, it will soon be found that the conqueror's people mingle with the "natives." Whatever social barriers between them may remain, the conqueror has to depend on native advice, in order to earn the lasting rewards of conquest.

China's history up to modern times is a sequence of defeats and conquests. Her empire was not a peaceful idyll under the rule of the sages, as eighteenth century writers, looking at China from afar, were inclined to assume.

China's first emperor, Chin Shih Huang Ti (third century B.C.), shows dimly but clearly the features of a barbarian conqueror. Mongolian conquerors again ruled the north of China long before the heirs of Genghis Khan established themselves on the imperial throne of China as the "Yuan" dynasty. The Manchus again were northern barbarians.

But the greater part of China herself was conquered by the Chinese in historical times. While the imperial throne was occupied repeatedly by invading barbarians, China's boundaries steadily expanded. We have little reason to consider this growth of China as a peaceful spread of a superior civilization; its spread was

probably less peaceful than the way the foreign settlers won the United States from the Indians, and certainly not more so. Up to the present day no friendship is lost between the Chinese generally and the so-called "tribes" of Lolo and Miao, driven by the spread of Chinese civilization into secluded mountains of western and southern China.

Thus there are two distinct phases in the conquest of China throughout the ages: on the one hand, a central government strong whenever it was established anew by force of arms, and weak after the conqueror's prowess had been lost in the splendor of an Asiatic court; and, on the other hand, a steady expansion of China herself directed southward, where there dwelled people who knew little of, nor were willing peacefully to accept, the blessings of Chinese civilization. The Chinese written language indicates these two basic trends of Chinese history in a very arresting way: the barbarians of the north who from time to time invaded and conquered China are designated by a character which is formed with the radical meaning "man"; the barbarians of the south who throughout the ages have given way to the pressure of the Chinese southward movement are branded by a character formed with the radical meaning "dog."

I have not found ample references to this southward movement of the Chinese settlement of China and the countries beyond. But probably we shall not go far wrong in drawing conclusions about it from recent observations about Chinese expansion in eastern Siberia.<sup>1</sup> What the Chinese imported into eastern Siberia was the Chinese type of commercial penetration closely intertwined with usury. The natives of eastern Siberia entered the trap: they were stripped by their creditors of all their material belongings; they were forced to sell their families to their creditors; they themselves were sold as slaves if they had not already been killed in an attempt at unlawful resistance against the lawful demands of their Chinese creditors. Some of these tribes were extinguished in the

<sup>1</sup> Cf. W. K. Arsenyev, *In der Wildnis Ostsibiriens* (Berlin 1924) vol. 1, pp. 154 ff., and *Russen und Chinesen in Ostsibirien* (Berlin 1927) pp. 71 ff.

beginning of the twentieth century, though the wives and daughters bore Chinese sons to Chinese families.

The way Manchuria was settled in our own time may be indicative of how the peasants in the southward trend of Chinese settlement were set up on the land. In Manchuria high officials appropriated large tracts of land and gathered peasants willing to cultivate the land as their tenants.<sup>1</sup> The large scale immigration of Chinese peasants into Manchuria did not proceed on the basis of a grant of free homesteads: from the beginning they were tenants dependent on their landlords. While the peasant scarcely earned a living wage, the landlord collected his rent.<sup>2</sup>

There is very little reason to imagine that in olden times the scheme of social events in China was essentially different from that of today's yesterday, the less so since actually in these comparatively recently conquered and settled southern Chinese provinces we find proportionally the largest extent of tenancy and extremely strict conceptions of creditors' rights and debtors' duties.<sup>3</sup>

<sup>1</sup> Cf. Chen Han-seng, *The Present Agrarian Problem in China*, China Institute of Pacific Relations (1933) p. 13.

<sup>2</sup> Similar tendencies are evident wherever in China land has been newly cultivated in recent times. Cf., for example, Wu Chung-tao, "Farm management in the lake district of An-hsiang-hsien [Hunan]" in *The Chinese Village*, vol. 1, no. 5, pp. 70 ff., on the appropriation of land gained by damming the Tungting Lake; Djang I-pu, "Land distribution and the tenancy system in Kiangsu province," *loc. cit.*, no. 8, pp. 57 ff., on the appropriation of newly cultivated lands in coastal districts of Kiangsu province (so-called cultivated salt lands); Chen Han-seng, *Agrarian Problems in Southernmost China* (Shanghai 1935) pp. 28 ff., on the appropriation of land by encroachment of the rich and powerful in modern times, and pp. 52 ff.: "In past centuries high officials and big landlords used to receive cultivable but uncultivated governmental lands and lease them out to tenants."

<sup>3</sup> Chen Han-seng, *ibid.*, pp. 87 ff., points out the vast extent of slavery resulting from the sale of girls and women, sometimes also boys, in order to pay debts out of the sales proceeds. In western Kwangsi even slavery of adult males exists. They are "married" by their masters, and their children are free after they have grown up. The origin of such slavery is debt. Cf. Hsieh Yu-lin and Liu Tuan-sheng, "Rural economic conditions of Kwangsi province" in *The Chinese Village*, vol. 1, no. 1, pp. 57 ff. An intermediate stage is the "advance sale of labor," under which poor peasants borrow food from rich peasants in spring and summer and undertake to work off the loans thus received ("kung liang"—work for grain): cf. Loo Tzu-shiu, "Forms of agricultural production in nine villages of Shiao-hsien [Kiang-

## II

*Chinese Law*

Thus from Chinese history we should expect to find in Chinese law detailed provisions on landed property and rent, on rights and obligations of creditors and debtors, etc. Instead we are presented with the imperial code, that is, a penal code fixing rather brutal corporal punishments for all kinds of crimes and misdemeanors, protecting certain moral and social concepts. This code, newly edited by the Manchu dynasty after their conquest of China, was an old heritage from Chinese imperial government.

Western students, dominated by the legal concepts elaborated in the fifteenth and following centuries, naturally resented this code as a barbarian instrument, the more so since it lacked any provisions dealing with civil law, excepting certain provisions concerning family law.

The general conclusion to be drawn from this state of Chinese law was so obvious that few failed to draw it: "China lacks a proper law, therefore she needs a new law." The conclusion has been satisfied meanwhile by voluminous legislation which western lawyers find exasperating and which unhappily in its administration by the courts of law does not come up to the great hopes originally set on its introduction.

That this has come about is not to be wondered at. For the Manchu code never represented China's law; the code was the

su]," *loc. cit.*, no. 5, pp. 65 ff.; Li Wei-foong, "Peasants' life in Tung-shan-hsien [Kiangsu]," *loc. cit.*, no. 1, pp. 75 ff. This stage is also mentioned for Kwangsi; in Shih-an-hsien a debtor has to work three or four years for his creditor in order to repay the capital and interest of a debt amounting to no more than thirty or forty dollars in Kwangsi currency (about seven dollars in United States currency). It is easy to understand how such forms of indebtedness may lead to lifelong slavery, on the one hand, and to the well known variety of "contract labor" which has become so important in China's modern industrial development.

It is possible that landlordism and tenancy have not been introduced only by the Chinese southward movement; similar forms may have been developed by the "natives" of these parts. Missionary observations about the present relationship between the Miao (as tenants) and the Nosu (as landlords) in the tribal territories of Yunnan and Kweichow may be thus interpreted.

penal law to be administered by the conqueror's officers, in order to maintain peace and order. This law of the conqueror was as little China's law as, say, Norman law, as such, ever totally became English law. China did not have a uniform law, but every place in China had its own legal tradition, its own traditionally formed law court, and even its own way of carrying out the law. Whenever a civil case came before the emperor's officer, that is, the conqueror's court, it had been tried before in the village court: the parties to the dispute had not bowed to the village court's decision, thus showing a punishable spirit of resistance. Criminal cases went before the magistrate, if the village court deemed that necessary, as a rule probably to show their loyalty. The importance of these "native" legal institutions as opposed to the conqueror's law is vividly expressed in a Chinese proverb: "The custom of the village is stricter than the will of the Emperor."<sup>1</sup>

The real Chinese law is a common law without written records and applied by village courts. A complete knowledge of it could be gained only by careful collection of the villagers' legal wisdom; its diversification could be discovered to its full extent only by comparison of the results gained by such a collection.

The modern Chinese and foreign lawyers could dodge the issue, of course, by arguing that this village law was only "custom," while the Manchu code was proper "law," but it would be rather difficult to maintain such a distinction in considering the contents of village law.

In the provinces of Chekiang, Hopei, and Kwangtung<sup>2</sup> the clan

<sup>1</sup> Cf. Kiang Loa, "Rural economic conditions of Hua-hsien [Kwantung]" in *The Chinese Village*, vol. 1, no. 4, pp. 61 ff.

<sup>2</sup> It is only for these three provinces that I can refer to definite statements about the "clan" institution. There is no doubt that clan organization in other parts of China is also of great importance. For Chekiang cf. Sun Shiao-tsun, "Land distribution in Chekiang" in *The Chinese Village*, vol. 1, no. 5, pp. 58 ff., and Hu Chi-wei, "Some points suggested for the reform of Lan-hsi-hsien government" in *Journal of Land Economics*, vol. 2, no. 6 (1934). For Hopei cf. Li Ching-han, "Rural loans in Ting-hsien" in *The Chinese Village*, vol. 1, no. 6, pp. 57 ff., and Chen Chen-yu, "Tenancy and tenants' protection" in *Journal of Land Economics*, vol. 1, no. 4 (1933). For Kwangtung cf. Chen Han-seng, *passim* on Kwangtung, and Kiang Loa, *op. cit.*

is an important legal concept. The estates belonging to the clan are held in a typically Chinese kind of inalienable tenure and are administered by clan elders. These clan estates, through their administrators, exercise a preemption right<sup>1</sup> to all the lands owned privately by members of the clan. Within the clan a debtor and his family are subject to an especially rigid regime of debt enforcement.<sup>2</sup> But the "clan law" extends beyond the clan estate and its proper administration; all the clan members bearing an identical family name form a unit. For example, even though no clan estate exists, preemption rights prevail as to land between the different clan members,<sup>3</sup> and the counterpart of such preemption rights to land are redemption rights of the seller.<sup>4</sup>

Thus property rights to land are restricted by the clan law. But there also exist other restrictions of landed property. For Hopei it has been stated that besides the preemption right of the clan there also exist preemption rights of neighboring landowners to any piece of land offered for sale.<sup>5</sup>

Village law is aware of the distinction between a personal debt and a debt attached to a piece of land (i.e., a mortgage). It may happen (Hopei) that land which is overburdened with debt, and which has not been properly put up at a forced sale, is left uncultivated because whoever takes possession of such land is deemed also to assume its obligations.<sup>6</sup>

There are also different concepts of the discharge of a debt. In southern China it is not at all uncommon that the creditor, in order to be repaid, forces the debtor to sell his family one by one, but in Hopei there is a rule that a peasant who has sold all his land

<sup>1</sup> Cf. Chen Han-seng and Kiang Loa on Kwangtung.

<sup>2</sup> Kiang Loa points out that the social boycott meted out to the recalcitrant debtor must be decreed by the village court.

<sup>3</sup> Cf. Chen Chen-yu, *op. cit.*, for Hopei, and Liu Tuan-sheng, "Rural economic life in Nyi-cheng, Hang-hsien [Chekiang]" in *The Chinese Village*, vol. 1, no. 6, pp. 86 ff.

<sup>4</sup> Cf. Liu Tuan-sheng, *ibid.*, for Chekiang; such redemption is also indicated by Sun Shiao-tsun, *op. cit.*

<sup>5</sup> Cf. Chen Chen-yu, *op. cit.*

<sup>6</sup> Cf. Li Ching-han, *op. cit.*

and belongings has done all his creditors can lawfully demand; whatever is left unpaid after such "destruction of the estate" has to be written off by the creditor as a loss.<sup>1</sup>

The above instances of Chinese village law have been given in order to illustrate that the legal provisions contained in this law exceed the realm of what ordinarily one may describe as "custom." All of them have come to my notice incidentally; a more careful investigation would probably yield ample results, though of course no casual collection could ever be a substitute for a proper official collection of the "common law" of China in all its diversification.

### III

#### *Chinese Administration*

China's imperial court has always shown the structure of a conqueror's court. True, it was a center of civilization, but as such, at least in the best times of Chinese monarchy, it liked to show a tinge of internationalism, of proud superiority to prejudices and superstitions, and a calm aloofness from Chinese life. The Mongol tradition of Genghis Khan and his successors pervaded the court.

The organization of government at the seat of the imperial power showed that mingling of the ruling and the subject races typical of a conqueror's government: Manchu princes and nobles represented the imperial authority, Chinese ministers and advisers were entrusted with the daily routine. The most trusted intimate advisers were often eunuchs who, without family and heirs, enjoyed the same title to the sovereign's confidence as Catholic priests in the west during the Middle Ages.

The conquerors' governments did not reach the stage of a carefully organized administrative machine; subdivisions of their empire were geographical. Though the imperial government of China had administrative departments organized according to their objective tasks, the geographical division of the empire prevented these departments from reaching administrative efficiency.

Like the satraps, prefects, etc. of other times and nations, the

<sup>1</sup> Cf. Li Ching-han, *op. cit.*

Chinese provincial governors and viceroys were representative of the full, unlimited power of the sovereign conqueror. They were the chiefs of every administrative activity in their provinces, and orders of the imperial government could be set aside as long as this was not done in flagrant disobedience or was not detrimental to the imperial exchequer. The Abyssinian formula could have been applied to them too. The same was true of the hsien magistrates, or district chiefs, who also represented the full power of the sovereign, subject to the governor's orders but substantially unrestricted.

There was only one check to abuses of power, the check by the censorate. But this check, though oftentimes praised as an institution embodying classical wisdom, was never very effective. The omnipotence of the conquerors' administration of China, as organized in accordance with old traditions, was not questioned by the censors in principle. But they saw to it that the formal requirements of Confucian ethics and the proprieties were observed. The special attention paid in the Chinese annals to individual censors who went beyond these limits is a proof that such behavior was considered unusual.

How deeply imbedded such government "by proxy" was in Chinese history is possibly best evidenced by a peculiar hereditary office which in Kwangsi was able to survive the Manchu dynasty itself.<sup>1</sup> In parts of Kwangsi conquered under the Soong dynasty eight hundred years before, deserving military officers had been rewarded by hereditary grants of government over certain areas. These little dynasties existed till they were overthrown in 1923. They actually controlled 70 per cent of the landed property in their territory, and they ruled not like absolute sovereigns in the west but like microscopic conquerors. They even formed a distinctive group of intermarrying families of "royal blood"; their daughters were married only to "royal princes," their sons had to marry "royal princesses," though in addition they chose from the daughters of the land as many girls as they liked.

<sup>1</sup> Cf. Nung Shui-kong concerning the "tu kuan" of Kwangsi in *The Chinese Village*, vol. 1, no. 4, pp. 74 ff., and no. 5, pp. 73 ff.

While I could not point to other instances of such hereditary grants of full governmental rights, the delegation of full powers has always been the normal form of Chinese government. Even now the heads of the provincial governments, though nominally subject to the orders of the National Government of the Republic, may as a matter of fact do largely as they like, to an extent not found in other countries of our time excepting the modern dictatorships: so deeply has the type of the conqueror's government impressed itself on the Chinese concept of government.

Foreign observers of Chinese government naturally have always been struck by the phenomenon of a government stopping in its organization at the district (*hsien*) magistrate, for some of these districts had more than a million inhabitants, in other words, clearly required a governmental organization of some kind below the magistrate. The general assumption has been that in these lowest stages of administration there existed a type of idyllic rural self-government, a basic democracy. Therefore China has very often been described as a fundamentally democratic country.

This concept of democratic self-government in the lower stages of Chinese administration cannot be maintained, in view of the facts brought forth by recent studies of Chinese village administration.<sup>1</sup> The village administration is not democratic.<sup>2</sup> Its govern-

<sup>1</sup> Cf. Li Yih, "A study on the political structure of the Chinese village" in *The Chinese Village*, vol. 1, no. 10, pp. 33 ff., and Wang Yu-wan, "Living conditions of peasants in northern Shansi" in *The New Village*, no. 24 (1935).

<sup>2</sup> In Shansi province Marshal Yen Shi-shan has tried to organize village democracy; according to his scheme (that is, according to actual provincial legislation) the highest organ of the democratic village was to be a general assembly of all the heads of the families living in one village. Wang Yu-wan (*op. cit.*) has analyzed in detail the working of this democracy in three *hsien* of northern Shansi. Studying fifteen villages for the years 1933, 1934 and 1935 he found that in 4 villages 3 to 5 per cent of all the "citizens" entitled to attend the village assembly were actually in attendance, in 7 villages 6 to 8 per cent, in 3 villages 9 to 10 per cent, and in 1 village 12 per cent. He adds to these statistics that in many villages no general assembly is held at all; instead the village eldest assembles a meeting of the "better" families' heads, that is, those whose property exceeds 50 mows of land, such meeting taking the place of the constitutional village assembly. In other words, the democratic experiment of Shansi province has dismally failed, and evidently for no other reason but lack of precedent.

ment lies with a small number of well-to-do families; though they could scarcely be considered as an aristocracy proper,<sup>1</sup> they nevertheless form the backbone of all government. They receive and carry out—or neglect to do so—the orders of the hsien magistrate; they levy contributions for the common weal,<sup>2</sup> as they understand it; they take care of village justice by forming the village court.<sup>3</sup> Socially they are landlords, traders, usurers;<sup>4</sup> thus they combine economic, social and governmental powers. In addition it is in their ranks alone that literacy is to be found, for they alone can afford to spare their children from work for a time sufficiently long to enable them to master the mystery of the Chinese written language.<sup>5</sup> This self-governing "gentry" constitutes the layer of Chi-

<sup>1</sup> The fact that rank in the village depends almost exclusively on property is an unaristocratic feature. But Li Yih (*op. cit.*) shows that at least a considerable percentage of men holding influential positions in village administration had more or less inherited such positions. To my knowledge, however, such inheritance of authority has nowhere led to the growth of a feudal aristocracy proper, with the exception of Kwangsi, as discussed above.

<sup>2</sup> Cf. Li Yih, *op. cit.*; Ying Mu-ju, "Peasants of Pukiang-hsien [Chekiang]" in *The Chinese Village*, no. 5, pp. 75 ff.; Yao Shao-li, "Rural population and land distribution: an investigation of 200 families in Kiangsi" in *New China Monthly* (June 10, 1935) pp. 33 ff.; Li Wei-foong, *op. cit.* The abuses in the levying of such contributions and the "squeeze" levied on contributions collected for higher authorities are a standing complaint of all the Chinese writers describing and discussing the rural situation of China.

<sup>3</sup> Cf. the articles of Li Ching-han, Kiang Loa, Wang Yu-wan, and Li Yih, referred to above. Wang Yu-wan and Li Yih contend too that it is hopeless for the poor to sue the rich. The latter refers to a custom of making regular presents to the judicial "ta hsien sheng" (great gentlemen), the value of which might easily become the standard of their judgments. He also explains, in accordance with the discussion in section II above, that these judges were administering the unwritten law of the countryside.

<sup>4</sup> Wang Yu-wan gives the economic position of the office holders in 27 villages of northern Shansi as follows: self-cultivating peasant-owners, 25; rich peasants, 218; landlords, 215; artisans, 21; traders, 36. Roughly 60 per cent of the population do not take active part in the village administration; the lion's share is allotted to the rich peasants and landlords, that is, about 17 per cent of the population. According to Li Yih (*op. cit.*) the Rural Rehabilitation Committee of the Executive Yuan of the National Government found in Shensi and Honan that the decisive influence in local self-government lay with the landlords. Li Yih also gives figures showing the same tendency in Wu-sih-hsien (Kiangsu). Chen Han-seng discusses the same type of rural self-government as developed in Kwangtung province.

<sup>5</sup> Cf. K. A. Wittfogel in *Zeitschrift für Sozialforschung*, vol. 4, no. 1, p. 54, note 3.

nese society through which tribute is paid to the conquerors in the capital, in the provinces and in the hsien, the most powerful of them living in the walled cities which form the stronghold of military force.<sup>1</sup>

The original way of paying tribute was the land tax levied on all landed property. But a reading of the voluminous regulations of land tax administration will not lead to an understanding of the complex system by which the land tax was levied under the imperial government, and is still being levied all over China.

The lack of a proper organization of administration led very early to difficulties in land tax collection. But the land tax—both in silver and in kind—had to be paid as tribute to the imperial exchequer, had to feed the district magistrates and their staffs, the governors and viceroys and their courts. Between the district magistrates and the "native" gentry a system of land tax collection was evolved which up till now has braved the storm of reform proposals, and which may be expected to exist for quite a long time to come.

A special institution of the Chinese countryside is the hereditary tax-farmer,<sup>2</sup> sometimes called the "village book."<sup>3</sup> He is supposed to know the distribution of landownership within his own rather small district.<sup>4</sup> His office may be sold,<sup>5</sup> and actually it has sometimes been sold to persons unable to read the books in which the secrets of the tax-collecting trade are buried.<sup>6</sup> The profits of his

<sup>1</sup> The Chinese word for "city" in the written language indicates "a walled place."

<sup>2</sup> Cf. Li Yih on the "chü shu" and "ti pao" of Kiangsu and the similar officials in Shensi. There exists a vast literature in Chinese on the "land tax corruptions."

<sup>3</sup> Cf. Ying Mu-ju, *op. cit.*

<sup>4</sup> Cf. Hu Chi-wei, *op. cit.* In Lan-hsi-hsien there were seventy such tax-farmers, that is, roughly one for every three or four thousand people. But in addition there were no less than three hundred keepers of landbooks, that is, about one for every thousand people.

<sup>5</sup> Hu Chi-wei gives the market price for the office of tax-farmer at \$600, for that of keeper of landbooks at \$50 to \$200. The total value of hereditary rights in the levying of the land tax is therefore not less than roughly \$100,000 in one hsien; for all Chekiang these rights probably represent a capital value of about 10 million Chinese dollars.

<sup>6</sup> Cf. Hu Chi-wei, *op. cit.* Of 300 keepers of landbooks no less than 100 were illiterates.

office depend largely on bribes. He may "lose" privately owned land so that there is "land without tax," or land which is not taxed to its full extent; he may designate as landowner a peasant who does not own land so that there is "tax without land"; or he may ascribe a larger holding to a peasant than he actually owns. In short, the hereditary tax-farmer represents in his functions the union of the interests of the conquerors' government and of the native gentry.<sup>1</sup> His power even now is so great that a strike by the tax-farmers of a hsien may deprive the hsien officials of their income.<sup>2</sup>

## IV

*The Ruling Class of China*

In an agricultural country he who owns the land, that is, the most important means of production besides labor, is naturally in control of the country and its people. This control, as we have seen, is exercised locally in China by means of the so-called rural self-government, including the administration of the law.

But the power of the landowning class extends beyond the confines of the village and larger local units below the hsien. Economic independence based on landed property is the necessary prerequisite of literacy, especially in a country where literacy is achieved with so much difficulty as in China.<sup>3</sup> And literacy again is the basis of any activities in trade and commerce and, of course, in government service. While positions in local self-government, up

<sup>1</sup> It is worthy of note that the office of hereditary tax-farmers was met with by the English when they conquered India. There by mistake these tax-farmers were taken to be hereditary landowners, against the opposition of Warren Hastings who was well aware of their really more limited function. While China's government largely carried on the traditions of the heirs of Genghis Khan, India was under the rule of Tamerlane's successors. The conquerors' government, in both countries, produced the same institution.

<sup>2</sup> Cf. Ying Mu-ju, *op. cit.*

<sup>3</sup> I have been told by Chinese friends that in Chinese primary schools the children are normally taught about 1500 characters, a number quite insufficient to enable them really to read a newspaper or a book with full understanding. Besides, experience in Japan has shown that children leaving primary school know on the average less than half the characters they are supposed to have learned.

to the present day, may occasionally be held by illiterate persons,<sup>1</sup> the service of the central government is built on literary ability.

Thus it is the landowning minority of the Chinese people who have always been in control of China, subject to the restrictions imposed by the conquerors, and who have been the conquerors' instruments to govern the country. This importance of landownership is always present in the mind of the Chinese.<sup>2</sup> Even the overseas Chinese of today usually use for the purchase of land<sup>3</sup> whatever investment capital they remit to China. Chen Han-seng has aptly described this basis of China's ruling class in his statement that "landlords in China are often quadrilateral beings. They are rent collectors, merchants, usurers, and administrative officers."<sup>4</sup> The subject class are the peasants working the land, exploited by the ruling class by rack-renting, trading, usury and the administrative "squeeze" in all its different forms.<sup>5</sup>

An important basis of this class distinction is to be found in the relationship established between the invading conqueror and his officers, and the subject "natives." Foreign observers have sometimes even gone so far as to state that they had become aware of a difference in racial traits between the upper and the lower strata of Chinese society.<sup>6</sup> Whether this observation holds true or not, it possibly indicates an instinctive awareness of these students of the basic facts in the structure of Chinese society as it has grown and taken shape throughout the centuries and millennia of its history.

It has become customary with western students of China to consider her society as a marvel of stability, as an instance of a stationary type of society. This conception is in flagrant contradiction

<sup>1</sup> Cf. Li Yih, *op. cit.*

<sup>2</sup> To some extent this is probably the result of the painful Chinese experience of monetary depreciation and inflation.

<sup>3</sup> Cf. Chen Han-seng and Kiang Loa.

<sup>4</sup> Chen Han-seng, *The Present Agrarian Problem*, cited above, p. 18.

<sup>5</sup> The nearest parallel to the Chinese peasant's life could probably be found in that of the Mexican peon, at least before the Mexican revolution.

<sup>6</sup> Cf. Wittfogel, *Wirtschaft und Gesellschaft Chinas*, cited above, vol. 1, p. 17, note 25.

to Chinese history, which discloses a steady growth and expansion of the Chinese empire throughout its vicissitudes; it shows also a misunderstanding of the proper meaning of the clash of western and Chinese influences in the Far East. Originally this clash was not that of a dynamically expanding western society with a stationary empire, but that of two expanding societies. But Chinese "imperialism" proved weaker than western "imperialism" and succumbed; and this weakness and defeat reacted on the social structure of China comparatively quickly, because this structure demanded the steady growth of Chinese society in a southward direction. The overseas emigration of the Chinese as coolies and traders was a poor substitute for the steady expansion of the "progressive" agricultural settlement which was the keynote of China's history till the eighteenth and nineteenth centuries.

When the growth of China was thus restricted Chinese society very soon entered a period of social convulsions lasting to the present day. The Taiping Rebellion, eighty years ago, was the first expression of the difficulties of adjustment brought about by enforced stability.<sup>1</sup> It was followed by the Boxer Rising, forty years later, which was cleverly manoeuvred by the imperial court against the foreigners; fundamentally the same social and economic reasons were at the back of this movement which had led before to the Taiping Rebellion.<sup>2</sup> Ten years later the Manchu government was overthrown, and the last conquerors of China were massacred. Their place was taken by the "proxies," the "warlords," that is, the former representatives of imperial authority in the provinces, followed by newly-arisen military commanders. All attempts to establish a central government proved abortive. After another ten years a new social revolution swept over China under the leadership of Sun Yat-sen and the Kuomintang. As a social revolution it proved abortive, and whether the present government of China will be

<sup>1</sup> The Taiping Rebellion originated in the south, where the effects of the compulsory stop of expansion were naturally felt most.

<sup>2</sup> Northern China, after the Boxer Rising, got some relief by the opening of new settlement lands in Manchuria, though under indifferent conditions: cf. Chen Han-seng, *The Present Agrarian Problem in China*, cited above.

able gradually to establish a new form of effective and efficient government is still "on the knees of the Gods."

But throughout this cramped and bloody history, complicated by foreign aggression against China, there have been slow changes in the social structure. Old-fashioned people have lost their grip on the country and have to some extent been replaced by other elements.

First, there has been a change in the center of power. Nanking's becoming again the capital of China was not only a symbolical act linking present-day China with its last national capital of Ming times; it also was an apt expression of the fact that the hegemony of northern China had come to an end, and that the south of China, conquered throughout Chinese history, had ceased to be subject to northern supremacy.

Secondly, the sources of wealth and power have undergone a change. The newly rich of China have constituted groups of their own. They comprise not only the higher military officers,<sup>1</sup> and the greatly swollen staff of civil government, but also manufacturers on a scale not known before, bankers profiting from the new system of communications and commerce, and the numerous layer of people serving as connecting links between international commerce and Chinese economic life.<sup>2</sup>

Thirdly, in the countryside there appears a new element which is characterized in Chinese literature as the "rich peasants."<sup>3</sup> Looking over the detailed studies of country life in China as published recently, one gains the impression that slowly a new class of

<sup>1</sup> While to a large extent military officers have bought only land, they have also used part of their spoils for more modern activities. Most of the banking business in Szechuan, excepting that of the official and semi-official banks, is now controlled by generals. While before the financial reorganization of Szechuan province in 1935 its military governors flooded the province with fiat money, militaristic banks engaged in a profitable exchange speculation against the Szechuan dollar and were finally rewarded by its devaluation.

<sup>2</sup> This group may be styled the "compradore" group, although it comprises not only the compradores proper of the foreign firms, but in addition a large number of wholesalers, retailers, servants, etc.

<sup>3</sup> There is of course no definite borderline between this group and the rent-collecting landlords and the middle peasants.

"kulaks" is rising, not necessarily landowners but sometimes tenants.<sup>1</sup> They seem to combine traditional Chinese methods of agriculture with what can be usefully absorbed of modern technical progress. They cleverly make use of the spreading banking and loan facilities in the country, which are more or less inaccessible to the poor peasant who is unable to put up any security.<sup>2</sup> Landownership is not as attractive to this group as it used to be, since these peasants who farm in a businesslike manner have realized that other investments yield better profits.<sup>3</sup>

Thus Chinese society, which was forced into ruinous stability by its clash with a superior social organization, is slowly being reformed. The inflow of foreign capital, stopped for quite a long time but begun again in 1933 and 1934, assists this silent regrouping of China's social constitution.

But so far the changes have not led to changes also in Chinese ideology. The new groups of Chinese society have not yet found their own way of reorganization and still look to the old tradition.<sup>4</sup> In this they are assisted by the curious twist of western thought which generally considers China as a country with an inborn social structure more or less immutable and conservative; for such mis-

<sup>1</sup> Cf. Djang I-pu, *op. cit.*, for Pei-hsien, Yih-cheng-hsien and Chi-tung-hsien in Kiangsu. Wu Chung-tao, *op. cit.*, shows that in An-hsiang-hsien a rich tenant farmer cultivating 300 mows earns an income exceeding that which might be collected from a lease area of 500 mows, although this tenant farmer is supposed to pay an annual wage as high as \$80, besides free board and lodging, which is exceptional if compared with China's normal wage scale.

<sup>2</sup> This also applies to the newly established cooperative credit societies; cf. Sze Chi, "Kai-yuan-hsiang in Wu-sih-hsien [Kiangsu]" in *The Chinese Village*, vol. 1, no. 9, pp. 69 ff.; Hu Chiao, "Li-chi and neighboring villages in I-shing-hsien [Kiangsu]," *loc. cit.*, no. 2, pp. 69 ff.; Yao Chiung-hsing, "Cooperative society in Wu-kiang-hsien" in *Agricultural Weekly* (June 26, 1936) pp. 522 ff. While in the district 75 per cent of all the peasants are tenants, and nearly all of the tenants poor peasants, of the members of the model cooperative society established there only 7 per cent are tenants.

<sup>3</sup> J. L. Buck has repeatedly pointed out that the yield of rented land, if calculated in percentage of the invested capital, is very unsatisfactory in comparison with the Chinese level of interest rates. This is the result of the traditional unique position of landed property as the one proper form of capital investment.

<sup>4</sup> The old tradition sometimes enters a curious alliance with Anglo-Saxon puritanism, especially noticeable in the "New Life" movement.

taken assumptions conclusions are rashly made, the extremes of which are on the one hand that China is naturally incurable and more or less damned,<sup>1</sup> and on the other hand that China is face to face with social revolution.<sup>2</sup> While the first conclusion is obviously stupid, the other is commonplace: he who thinks that social life ought to be based on equal opportunity for everyone will naturally never find other but revolutionary solutions, in the long run. But for China, as for other countries, there are many short-run solutions adding up to quite a long period. It is not at all unlikely that China also will find a short-run solution, if only she frees herself from the tradition of her conquerors.

<sup>1</sup> Cf. especially Ralph Townsend, *Ways That are Dark*, a pamphlet against China which is full of realistic detail, on the one hand, and careless reasoning on the other hand.

<sup>2</sup> Cf. communistic, especially Trotzkyist, literature on China, and the publications of Agnes Smedley.

(*Shanghai, China*)

## HEALTH INSURANCE

Now that the most formidable resistance to social insurance in general has been overcome, the improvement of health provisions for low income groups has become the focus of public interest. In order to prevent hasty legislation a discussion of all problems involved is necessary. Millis' book,<sup>1</sup> concise and pleasantly written, is a valuable contribution to this discussion.

After a study of the economic and sociological aspects of the problem, of the health insurance systems in Germany, Great Britain and France, of the movement in the United States, the opposition to it, the model bill and other suggestions, Mr. Millis proposes his own plan, which is in general agreement with the majority of the Committee on the Costs of Medical Care but deviates in two important points: he considers it necessary to include maternity help in a government program of medical care; and he considers compulsion in health insurance a necessity. Cash benefits and medical benefits should be separated in an insurance system, not only because of the many conflicts arising for physicians who are responsible both for curing the sick and for certifying their ability to work, but also because the classes covered in the two schemes need not be the same: cash benefits are paid only to wage earners, but medical insurance includes persons in the lower income groups.

Mr. Millis' health plan includes: first, a vigorous and extensive public health program which would provide grants in aid to develop adequate medical services in financially weak and thinly populated areas; second, appropriate tax-supported medical care for special groups, e.g. soldiers, sailors, the indigent, the tubercular, those affected with venereal diseases; third, an amended Social Security Act with cash benefits for sick wage earners as well as for unemployed.

The proposal provides that three groups should share in the costs of the program. The taxpayer would pay for public health alone. Medical benefit insurance would be borne in the main by the insured, with a small government contribution in order to lighten a burden that is beyond the means of many beneficiaries. The burden of cash benefit insurance would be imposed on the employer. Mr. Millis does not make any estimates concerning the size of this burden. According to German experience the employer would have to pay about 2 per cent of the payroll for cash benefits amounting to 50 per cent of the

<sup>1</sup> Millis, Harry Alvin. *Sickness and Insurance*. Chicago: University of Chicago Press. 1937. 166 pp. \$2.

wages. Costs of administration would have to be added. Thus in paying cash benefits the American employer would bear about the same burden as the German employer did, whose contributions in the last years of the republic amounted to one third of what was actually expended on all kinds of benefits. The costs of major illness insurance in Millis' plan would depend on the rules constituting it.

The plan carefully avoids antagonizing the medical profession, on whose wholehearted cooperation the success of any system of health assistance depends. There will be no opposition concerning the first proposition of an extended and improved public health service; it is in line with American tradition and does not seriously hurt vested interests. American medical associations, however, may not be inclined to accept tax-supported medical care for special groups. While the right to establish consultation dispensaries would not be contested, the supplementary treatment might be, and it is on the possibility of providing this supplementary treatment that the success of dispensary activities depends. In a general insurance of medical benefits treatment is secured for the insured. In a scheme which provides medical treatment for special diseases out of taxpayers' money the question of the needs test would very soon arise. Not only the medical profession but the taxpayer would demand that no public money be spent for those who can pay alone.

Mr. Millis' fundamental requirements—that insurance be compulsory and that cash and medical benefits be separated—have been proved desirable by European experience. Compulsory insurance has defeated voluntary insurance because the poorest strata cannot take advantage of the latter. Also voluntary insurance, in order to avoid accumulating bad risks, tends to exclude those in poor health; the best risks keep out. Rubinow was right in saying that those who need insurance cannot afford it and those who can afford it do not need it.

The separation of medical service and cash benefits was found advisable because in the German system the supervision of medical service by lay bodies was considered by physicians to be a severe handicap in their medical work. It led to constant friction between physicians and the insurance administration because of the latter's suspicion that doctors' certificates exaggerated the severity and duration of illness. This separation does not, however, solve the main problem of legally defining the sickness which entitles the patient to cash benefits. It merely relieves the physician who gives the treatment. Physicians, that is, salaried medical officers of the insurance institution, are needed for certifying the claim to cash benefits. To grant or

refuse these certificates burdens the physician with an economic decision, a decision that is not easy when patients have to go back to intensive strain. The custodian of the fund on the one hand and, on the other hand, the doctor interested in the patient's complete recovery may easily disagree. Some instance of appeal would have to be established for such cases. In the Cullman Committee, set up in New York State to review the medical problem of workmen's compensation, the impartial specialists found only 25 per cent of all tested persons able to work while company physicians had found 90 per cent ready to go back to their jobs.

Mr. Millis' plan to combine unemployment and health insurance seems at first glance to be easy and simple. It requires merely that cash benefits be paid to the insured for periods of disability as well as of unemployment, additional expenses to be borne by an additional tax levied on the employer. The attraction of such a plan lies in the fact that it avoids a multiplicity of agencies involving costly machinery, overlapping and gaps. In European countries historical development, political factors, have been responsible for the confusing variety of insurance institutions, and the inconveniences of their administration have given rise there too to the demand for simplification. A country starting with new constructions might as easily build up a unified system from the beginning. The groups covered in the two branches could be the same. Financial departments could be united in one office, collecting contributions for both branches and investing reserves. In Germany unemployment insurance contributions were collected by the sickness funds as a simple addition to sickness insurance contributions. Private insurance companies too cover a similar risk involving different actuarial problems.

Unification, however, would mean only a certain coordination of the corresponding departments in each branch. It could not mean establishment of one type of insurance. Though the risk of losing one's earnings seems to be the same, the two risks are in fact different in nature. In the one case economic circumstances have caused the impossibility of earning and it is up to the employment office to check whether this impossibility still exists. In the other case loss of income is due to personal disablement and the physician has to check. Diversity in the frequency and severity of the risk requires very different actuarial calculations of costs, rates of benefits and reserves for each emergency, and necessitates administration in separate funds. The complicated taxation system of unemployment insurance in the Security Act should not be extended to other branches. The introduc-

tion of health insurance allowances may be a good opportunity for simplifying this system too.

More differentiations are necessary. In health insurance it would be unjustified to connect the duration of benefit payment with the previous period of employment, as some of the American states have done in unemployment insurance. The only justification for a limit in health insurance is the need to separate cases of illness from those of chronic invalidity. As there exists no invalidity insurance in the United States, and as the percentage of cases which need aid diminishes with the extension of the limit, a rather long period would be advisable. The extension of time from 13 to 26 weeks (the prevailing period in European schemes) can be granted at comparatively slight cost. According to the statistics of the Leipzig sickness funds this extension would involve an additional number of compensable sickness days of about 5 per cent of the total. The waiting period too needs special regulation. A time limit in the beginning of a case of illness, before payment of cash benefits begins, has proved expedient to prevent a certain form of malingering and to exclude trifling cases. A three weeks waiting period, as provided in some state unemployment insurance laws, would be much too long, however, because sickness is a heavier burden on the family budget than unemployment, and a long waiting period may ruin the family. A few days would be sufficient.

Thus unification of the two insurance schemes can mean only a certain simplification of machinery; the tasks of the actuary and of the administration will not be the same. It remains to be seen whether this organization will be so huge that its size complicates the machinery more than unification simplifies it. Concentration in central offices of applicants or persons to be checked has to be avoided because the latter tend to become centers of unrest.

As for medical benefits, Mr. Millis avoids a sharp break with the past and mitigates the resistance of physicians by limiting their scope to major illnesses. "In 80 or 85 per cent of the cases of illness only the care of the family physician and some drugs are needed." Major illnesses "constitute a relatively small percentage of the total but account for approximately half of the outlays for medical care." Insurance would be limited to hospital and laboratory service, including nursing, and to the refunding of large medical bills. This plan, which is the reverse of the British, has the advantage of leaving the work of physicians unaltered in general, and of avoiding the whole unsolved problem of mass treatment, because medical care will be left

to private practice. Yet the breadwinner of the lower income group will be protected in cases of severe illness.

Complete separation of cash insurance and medical aid insurance will raise many questions. The wage earner who feels himself incapacitated will have to consult the institution's physician in order to get the certificate which entitles him to cash benefit. The cash insurance administration, though interested in a quick recovery, has no means of inducing the patient to obtain medical treatment. In order to protect the funds against losses it might be entitled by law to demand that the patient obtain medical aid; in cases of infectious diseases this would be indispensable. But such an obligation might be too heavy for the sick person because his income is considerably reduced, perhaps to about one half his wages. A possible solution might be to oblige the medical profession to grant special rates to all who draw cash benefits.

Another problem is the protection of medical aid insurance against artificially large bills, with the overpay split between physicians and insured. Some kind of supervision by special physicians or medical associations becomes inevitable. The decision on the necessity of hospitalization is another point. Only in cases of operations which cannot be performed in private dwellings is hospitalization absolutely necessary. Shall it be granted for confinements, for infectious diseases which cannot be isolated at home, for incurable ailments, for cases in which complicated diagnoses have to be made? Very strict principles and strict supervision by medical officers will have to be established. Hospital expenses easily grow excessive and every change of principle may imply a large increase or decrease. To give an example: before the last depression the shortage of hospitals in the city of Berlin was considered a danger, a possible disaster in a period of epidemics. During the grippe epidemic in 1928 nurses had to give up their rooms in hospitals and the Red Cross helped with hastily established barracks. When the depression necessitated cutting sickness fund expenses, especially hospitalization, the result was a sudden evacuation of hospitals, followed by the shutting down of a few of them. The need for hospital beds was reduced to a fraction of what it had been.

With well defined principles, especially exclusion of some diseases, and good supervision, insurance may overcome these difficulties and may succeed in drawing the dividing line between high cost and low cost illnesses.

There remains one disadvantage. Limiting medical insurance to major illnesses means neglect of prevention. The European systems

which initially stressed cash benefits have found that the proportion spent on medical benefits (medical aid, hospitalization, etc.) has steadily increased, because of the latter's preventive functions. When Germany inaugurated its insurance system about two thirds of all expenditures were cash benefits and about one third medical benefits; after fifty years the relation was practically reversed. In all schemes the emphasis has shifted from cash benefits to the provision of medical services. Restoration of the sick worker has become the chief objective of insurance. Treatment in the early stage of sickness and a rapid cure are really prevention of more serious illness and of contagion. Besides, a system which provides no medical treatment cannot cooperate with the public health service in schools, convalescent care, etc. The school service may provide excellent health examinations and yet fail if no medical treatment can be purchased. The same holds true of health centers for various diseases.

The program of Mr. Millis is not as simple as it at first appears. It is desirable to consider carefully all the details involved. The importance of his proposal lies in the fact that it offers a way of avoiding the principal unsolved problem of all European health insurance systems—the inefficient handling of mass treatment—which has aroused such great dissatisfaction.

FRIEDA WUNDERLICH

## THE "ARBEITSRAPPEN" IN BASEL

In October 1936 the citizens of the canton of Basel-Stadt legalized a program of measures that fixes their business cycle policy for many years to come. The central point of this program is a novel use of collective bargaining as a means of economic stabilization. As the surrounding conditions are typical and afford an opportunity to verify theoretical assumptions which is seldom present under more complex conditions, the experiment is of interest also outside of Switzerland.

The federal government of Switzerland had adhered to a deflationary policy (which collapsed in October 1936, when the devaluation of the Swiss franc became necessary); this policy almost completely paralyzed private building activity and left very little of public building. The situation in the city of Basel was especially serious because there a speculative building boom had prevailed until 1932 and had led to a disproportionate expansion of the building industries. While some of the export industries proved good resistance against the depression, unemployment among the building workers increased sharply after 1932, amounting to more than two thirds of the whole unemployment. Thus an efficient building recovery could be expected to solve almost the whole problem of unemployment.

The Swiss constitution made it possible for a single canton to take independent action. A group of leading members of Basel trade unions, industry, finance and the university came together in order to carry through a plan devised by Professor Salin. They reached an understanding with all organizations on which the prospective law had a bearing, including the banks, through which the financial part of the plan was to be effected. Agreement was paid for by several minor compromises, but the plan seems to be unique, and it is all the more remarkable because economic and political contrasts in Basel are rather strong. It was approved by the Government and Parliament of Basel and finally by the voters (in this last case the majority was small). Today, although technical difficulties have proved greater than was expected, there does not seem to be any opposition to the basic idea from any quarter.

The problem may be summed up in a few sentences. Relief work financed from the ordinary budget would have been inadequate, not only quantitatively but especially as a means of recovery policy. Its stimulating effect would have been impaired by a corresponding intensification of the deflationary tendencies of the depression. If the process of economic contraction was to be interrupted, then capital

was to be raised, if at all, on the capital market, where large amounts lay idle. This way was not open to the local government, however. Its attempt to raise a loan had already led to a clear failure, because of its declining receipts and its mounting deficit. Credit expansion through the central bank, though approved in principle by the sponsors of the Basel plan, was not at their disposal.

In order to understand the solution it must be mentioned that in Basel practically all wages and working conditions are ruled by collective contracts between trade unions and organizations of entrepreneurs. During depressions the conditions of these contracts do not follow the sinking volume of production until very late. The real wage rate in Basel had even increased until 1936. But in a later stage of the depression, when unemployment grows and the power of the trade unions falls, this stability generally gives way to a fast decline of the wage rate. This turning point seemed to have been reached in Basel when the discussion about the "Arbeitsrappen" started. The federal government had already established a 10 per cent wage cut for its personnel; some Basel industries had it in prospect for their renewal of the collective tariffs. The sponsors of the Basel project believed, however, that such a wage cut would have as disastrous consequences for the cumulative shrinking process as relief financed through taxation.

In these circumstances the trade unions agreed to a special income tax of 1 per cent on all income from labor in consideration of a guarantee of the prevailing tariffs. The yield of this tax was to be administered separately and used exclusively for interest and amortization payments on a loan for relief work. Through this relief work the working class, besides avoiding a wage cut, would receive a much larger income, even during the first year, than the amount it had spent on taxation. The tax, the "Arbeitsrappen" (one "Rappen," or cent, on every franc of income from labor) gave the law its name. The peculiarity of the plan, however, does not consist in the amount or in other special features of the tax, but in the connection of wage and loan guarantee.

The return from the tax could be estimated at  $2\frac{1}{2}$  to 3 million francs. This amount covered interest and amortization on a loan of about 25 million. The annual deficit of building contracts amounted to about 40 million. Obviously the success of the plan depended on the possibility of inducing a maximum of additional capital to building activity. Two ways of bringing this about were taken into consideration. First, by the construction of self-liquidating public build-

ings (several finished projects were ready). Not only would the amounts of amortization again be available for investment, but possibly the establishment could be used later on as collateral. Thus a repeated turnover could be attained within the prospective ten-year period. The second way consisted in providing present credit for building, the financing of which was secured for a future time. Here the effect of the loan was restricted to a different timing of the project which may prove very important in the course of the business cycle. When no profitable or regular project was available the deciding consideration was the generally stimulating effects of the work. Such projects and such methods were to be chosen as guaranteed work for a maximum number of workers. For Basel this principle was especially important, because by no other device could the yield of the action be restricted to that city. The eventual cost disadvantages of this kind of canton self-sufficiency were consciously endured.

An easing of the public and trade unions' unemployment relief, and at the same time an increase in tax receipts, was expected from all undertakings, in addition to their effects on public credit and activity. A general recovery had to be reached if the whole plan was to be successful, because it was necessary for the stipulated maintenance of the wage level. Here, obviously, lie the main problems of the attempt to fix an economic policy for many years with control of only a few "strategic factors." A minor problem will probably arise as soon as decisions concerning the basic maladjustments of the building industry become necessary.

When the "Arbeitsrappen" plan was formulated prices on the world market had already started going up and the probability of a devaluation of the Swiss franc seemed more remote than during the past years. The authors took into account the fact that changes in contractual conditions might become necessary, and provided for an arbitration committee. But they thought mainly of minor changes in working time, wage rates, etc., that would become necessary with the introduction of new technical procedures and the like. The devaluation of the Swiss franc occurred a few days before the plebiscite, however, under conditions which were out of the control even of the federal government. An entirely new situation was created. An inflationary price movement was feared, which would have reduced the value of the wage guarantee; credit expansion by the federal government and a revival of private building activity seemed possible. The actual development brought only a slow increase in prices; the policy

of the federal government remained as conservative after the devaluation as it had been before; private building activity in Basel, because of the large number of vacant apartments, was not stimulated. On the other hand, the general downward trend in interest rates, which followed immediately upon the devaluation, made it possible to increase considerably the prospective amount of the loan.

This relatively favorable arrangement of circumstances does not detract from the fact that the arbitration committee will have to face the question of adapting the wage level to higher prices, and that this will be its most difficult task. Here it will be seen whether the organization as built up in Basel will be able to reconcile opposite interests in a phase of the business cycle when readiness for compromises is not forced upon the parties by actual necessity, and when its decisions — for instance about the desirable level of wages — will depend on disputable business cycle theories. The law gives full power to the committee, more than any other similarly constituted agency possesses and certainly more than the voters expected it to exercise. The experience which Basel will have in this respect should perhaps — at least for Switzerland — prove more important than the expected results as to the relation of direct and indirect employment and other more technical points.

The authors of the Basel project seem to believe that the partial planning role which they want the state to achieve is, and will be, to a growing extent, an outcome of structural changes in capitalism — from "high capitalism" to "late capitalism." They conceive of their experiment as a specifically democratic form of the development which has taken place in all industrialized countries during the last depression.

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## BOOK REVIEWS

NOURSE, EDWIN G., and Associates. *America's Capacity to Produce*. Washington: Brookings Institution. 1934. 608 pp. \$3.50.

LOEB, HAROLD, and Associates. *The Chart of Plenty*. New York: Viking. 1935. 180 pp. \$2.50. *Report of the National Survey of Potential Product Capacity*. [Prepared under the sponsorship of the New York City Housing Authority and Works Division of the Emergency Relief Bureau, City of New York.] New York: City Housing Authority. 1935. 358 pp. \$4.

The problem of unutilized capacity is foreign to a theory which contends that competition reduces the price level so far that all enterprises which are able to produce at these prices operate at their full capacity. According to this view those whose costs of production are too high have to close or use their equipment for the production of other goods. In other words, competition concentrates production in those enterprises which are best fit to produce a certain product and, if there is unutilized equipment, it can only be obsolete.

It remained for the theory of imperfect competition<sup>1</sup> to show that it might be more profitable not to increase production to the limits of capacity if the total receipts fall more (or rise less) than the costs of production.

These theories can, to a certain degree, be tested by investigations such as those conducted by the Brookings Institution and the National Survey of Potential Product Capacity (NSPPC) as to whether there was an excess capacity of technically and commercially useful equipment in this country in 1929, the year of greatest prosperity. But aside from this there are many problems of practical economic policy toward the solution of which the findings can be employed. For instance, how far can one increase purchasing power before reaching the point where the general standard of living cannot be further raised? Toward which field of industry should new savings be directed and where should existing capacity be liquidated? Are there any "bottlenecks" of productive capacities on the way which products have to pass from the production of raw material to the ultimate consumer? In which fields is there a shortage of labor, or in which occupations should young persons be interested and the unemployed retrained?

<sup>1</sup> Cf. Chamberlin, E., *The Theory of Monopolistic Competition* (Cambridge, Mass. 1933) and Robinson, J., *The Economics of Imperfect Competition* (London 1934).

Important for any investigation of productive capacity and the conclusions based upon it is the definition of "capacity." Although the lines of division may not always be quite clear there are three distinct meanings of the terms. Capacity may be considered as:<sup>1</sup> first, the capacity of the existing plant with operations governed by existing customs and traditions (in the Brookings terminology, practical capacity); second, the capacity of the existing plant if production were limited solely by physical forces and knowledge, i.e., resources, manpower, technology (in the Brookings terminology, theoretical capacity); third, the capacity of the nation to produce goods and services if full advantage were taken of existing resources, manpower and knowledge.

According to the first definition, the one which was made the basis for the investigations by the Brookings Institution, capacity would be considered to be 100 per cent utilized if all the equipment fit for operation were fully utilized at the seasonal peaks during the customary daily working time. The NSPPC preferred to adopt the second definition in order to get a wider picture of the productive capacity of the country through the omission of all restrictions which are due to human habits and inefficient management.

The aim of the Brookings investigations is to estimate the productive capacities of each industry under the present conditions of private ownership, management and competition. An estimate of the combined productive capacity of all industries or of the whole industrial plant of the nation would meet with difficulties, because the small excess capacity of some industries producing semi-finished products or raw materials might prove to be a bottleneck for the increase of production in the industries at a subsequent step of production. Nevertheless, the Brookings Institution estimated that the production of the country could have been increased by 19 per cent under the conditions of 1929.

A mere increase in the amount of production, however, would not necessarily increase the real income of the population if there is no desire to buy the particular commodities whose production has been increased. It is very easily conceivable that a bottleneck appeared in the satisfaction of consumers' wants. According to the figures presented by the Brookings Institution production reached the practical limits of capacity in industries to which an additional income would most likely have been directed—such as the cotton spinning, hosiery, dairy, iron and steel industries—and reached 85 per cent of capacity

<sup>1</sup> Report of the NSPPC, p. xiv.

in the automobile industry. One could argue, however, that, in the case of an increased demand, an improvement in management and an extension of the daily and seasonal working times might have led to increased production with the same mechanical equipment. This opens the question of whether habits and customs, which are considered by the Brookings Institution as limitations of the capacity to produce, are not often a function of demand itself, at least wherever the products can be stored.

To investigate how far income could have been increased in 1929 with the then existing equipment, but under a planned economy, is the aim of the two volumes published by the NSPPC. *The Chart of Plenty* contains an abstract of the findings of the survey and the conclusions; the *Report* has a more detailed explanation for each item and the very comprehensive statistical material. The average expenditures of a family with an annual income of \$5000 is the standard according to which a most detailed plan for production is constructed.

Each item is traced back through all stages of production to the first raw materials provided by agriculture, forestry, fishing and mining. The actual production of 1929, the capacity, and the required output for each step of production are plotted on a large chart which is enclosed in the two volumes. Each step is represented by a column showing the sales value of the different products at that step in 1929. The last column represents the national expenditures or the national income in 1929. The difference between two consecutive columns shows the value added by manufacture in the latter. Thus each product can be followed from the first to the last step. By comparison of the budget requirements and capacity it is found that the industrial equipment and the labor force were sufficient to produce a national income of 135 billion dollars, which is 44 per cent higher than the actual income of approximately 94 billion dollars in 1929.

The NSPPC estimates of capacity agree for most industries with the Brookings estimates of theoretical capacity. This is the case because very often the capacity of idle and obsolete plants, if repairs were considered possible, was included in the estimate of the NSPPC and in the Brookings Institution's figures for theoretical capacity, but was excluded from the latter's estimates of the practical capacity. In other instances the NSPPC takes more shifts or longer seasons as the basis for computation, or it considers the possible output of some products as equal to the capacity of all equipment adaptable to its production. In this way the estimated capacity often becomes infinite. Here the

capacity to produce certain commodities rather than the capacity of the equipment has been calculated. This, perhaps, is also the chief difference between the two reports. The Brookings report wants to answer the question of what part of our productive equipment stood idle; the NSPPC investigates what might have been produced with that equipment.

In some cases, however, (e.g., housing, recreation, services, some agricultural products) the NSPPC assumes an even greater capacity than was actually available in 1929 if, in the opinion of the authors, such a capacity could easily be provided with the existing labor and mechanical equipment. This seems to be a transgression of the limitations of the second definition, according to which only existing capacities should be taken into account.

The major difficulty in producing an income of 135 billion dollars with the equipment of 1929 lies in the inadequacy of the labor force. The *Report* of the NSPPC gives a rather detailed account of the breakdown of the total labor force employed in the years 1929-32 as required to produce the budget requirements. But a first cursory examination of labor requirements compared with actual employment makes one rather skeptical as to the accuracy of the estimate, and therefore of the possibility of attaining the income of 135 billion dollars. The total employed labor force would have had to be 11 per cent greater than in 1929, whereas the income would have had to increase by 44 per cent. In the construction field the requirements are 85 per cent greater than actual construction in 1929,<sup>1</sup> but the increase in the number of workers required is only 60 per cent. In the textile industry production would have had to increase by 87 per cent, but the required increase of the labor force is only 29 per cent. The requirements in mining, transportation and communication are even less than the actual employment in 1929.

The possibility of increasing income to the level of the budget with the equipment and labor force of 1929 seems therefore to be an overstatement—even if we overlook the question of skill and training. The labor force available for additional production was approximately 5 million. Even if we assume that replacements would not have to be

<sup>1</sup> Budget requirements: 1,550,000 dwellings (*NSPPC Report*, p. 134). Number of dwellings built in 1929: 429,352 with a value of 2262 million dollars (*ibid.*, pp. 130-32); therefore value of budgeted production 8180 million dollars. Value of construction per worker in 1929: \$4900 (U. S. Dept. of Commerce, *National Income in the United States, 1929-35*, p. 120); therefore the budgeted increase of production requires approximately 1,200,000 new workers as against 600,000 in the estimates of the NSPPC.

increased and trade would not require more personnel, production could be increased scarcely more than from 15 to 20 per cent. The breakdown of the labor requirements for an increase of production by 19 per cent, as held possible by the Brookings Institution, shows the necessity for transferring labor from trade, services and agriculture to industry and mining. It seems, therefore, that the mechanical capacity of the country in 1929 exceeded its human capacity, a situation which was perhaps reversed during the depression.

The budget requirements were set up under the assumption that the price relations among the different commodities remain the same as in 1929. There is always the possibility, however, that a more equal distribution of income and increased production might increase the costs, and therefore also the prices, of some commodities in comparison with others. If that is the case, the pattern of consumption of an average family, after its income has been increased to the stipulated level, might be quite different from the expenditures of a \$5000 a year family in 1929. It is therefore difficult to say that the capacity for an income of 135 billion dollars at the prices prevailing in 1929 is available.

But it is difficult in any economic system, even a planned one, to predict accurately the changes in demand if price relations are not fixed and incomes grow. To guarantee the smooth functioning of the economic organization certain reserves, or a certain excess capacity, must be maintained at all times. On the other hand, there will always be an unutilized capacity in the fields of production where demand is declining. The question, therefore, is whether the capacity in 1929 in the growing industries was greater than it would have been under a planned economy with the same growth ratio as this country experienced from 1925 to 1929.

Automobile production<sup>1</sup> increased during the period by 33 per cent, that is, by approximately 8 per cent per year. The average excess capacity in these years was 17 per cent. That would mean that capacity, on the average, was two years ahead of production. The average excess capacity in the newsprint paper industry<sup>2</sup> was 15 per cent, the average increase per year, 9 per cent; the capacity, therefore, was 1.6 years ahead of production. The iron and steel industry reached its rated capacity in 1929, at least in the production of light plates and structural steel. There are unfortunately no comparable figures available for the chemical industry.

<sup>1</sup> *America's Capacity to Produce*, p. 582.

<sup>2</sup> *Ibid.*, p. 584.

The overcapacity in many growing industries, which seems to exceed the necessary growth reserves, could probably be avoided in an economic system with a more careful planning of new investments, or could be utilized if consumption increased more rapidly. The necessity for making consumption larger and investments relatively smaller (which might be achieved by increasing income without increasing savings) is, in fact, the problem discussed in the subsequent volumes of the Brookings Institution.<sup>1</sup> The same problem is also treated by the NSPPC. Emphasizing the same argument as Harold G. Moulton, the survey points out that in the present economic situation an equilibrium between supply and demand is not established by a fall of prices but rather by a reduction of output. This is said to be the consequence of the inhibition of competition by monopolies. Here, however, the survey departs from Mr. Moulton. To restore competition is not held to be feasible, because it would reduce prices below costs so that the maintenance of the equipment might be endangered and wages might even be lowered. In that way competition would lead to a continuous deflation, with all its disastrous consequences.

Harold Loeb, who is author of the "Conclusions" of the NSPPC, points out that the income of the largest group of consumers cannot be increased as long as labor is considered as a commodity. Therefore four proposals are made which, if put into operation, would guarantee the best use of the productive capacity of the country, and consequently the largest income which could be realized at any given time:<sup>2</sup> first, that all goods and services be divided into two classes, those which can be provided in desired quantities and those which are intrinsically scarce; second, that the prices of the former be fixed — at any price level — and totaled; third, that the total price (budgeted quantities multiplied by unit prices), translated into monetary terms, be issued to the prospective consumers to be cancelled when exchanged for goods and services; fourth, that the industries concerned with producing and distributing these potentially plentiful goods be centrally controlled so that the budgeted quantity of goods (subject, of course, to unpredictable variations in consumer demand) shall be produced. This solution is found to be in perfect accordance with western traditions, since in many countries many spheres of activity

<sup>1</sup> Cf. Walther Lederer, review of H. G. Moulton's *The Formation of Capital and Income and Economic Progress*, in *Social Research*, vol. 3, no. 2 (May 1936) pp. 245-48.

<sup>2</sup> Report of the NSPPC, p. 245.

have been removed from private activity, e.g., public utilities and certain services.

It is certainly true that a decline of competition would tend to reduce production and to increase prices if the demand does not change. Nevertheless, it is likely that production will increase, even to the limits of capacity, if the demand can be increased. Therefore it is perhaps a little superficial to dismiss as shortly as Mr. Loeb does the different proposals for increasing purchasing power by monetary means<sup>1</sup> with the argument that this would only increase profits; whether this would happen depends largely on the method by which this new purchasing power is brought into circulation. The proposals of Mr. Loeb leave the reader wondering whether a better utilization of the productive capacities of the country could be attained in the comparatively near future, and whether—since Mr. Loeb and his associates would probably admit that this is not likely—the whole work of the NSPPC is a description of what production and the standard of living could be under utopian social and political conditions rather than a basis for a practicable policy in our times.

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NOYES, C. REINOLD. *The Institution of Property*. New York: Longmans, Green. 1936. 645 pp. \$7.50.

This is a book filled with stimulating ideas for all the social sciences. The author undertakes to describe that "bond of habits, individual and social" (p. 12), which we call property. His work is divided into two main parts. As a foundation he endeavors to analyze property in early and classical Roman society and to put against it an analysis of the English feudal system. This is followed by a critical presentation of the theory and practice of American property law, and finally by the main chapter on the substance and structure of modern property, "an analysis of the degree to which the scheme of legal facts and legal theories of the present day offers a true picture, or to what extent and in what ways on the other hand, this picture requires modification or new development in order to represent reality" (p. 413).

Only a reviewer commanding expert knowledge in Roman legal history, Indo-German philology and English feudal law, and a profound insight in the economics and legal theory of today would be able to make a critical assessment of the details of this study. Noyes

<sup>1</sup> *The Chart of Plenty*, pp. 145 ff.

hardly expects such a critique. He himself characterizes his historical studies as "brief sketches that are each . . . largely viewed through the eyes of one authority or school" (p. 24). His Roman law studies follow mainly the views and the philological methods of Ihering; the chapter on feudalism is based on Fustel de Coulanges and the classic historians of English law; the chapter on American legal practice does not purport to represent a thorough analysis of the cases.<sup>1</sup> In fact, such a critique would not do justice to Noyes' work. Its importance lies in the illuminating arrangement he has made of the historical material. A vast number of valuable casual observations must remain unmentioned here. I shall restrict myself to a report on the main idea, which Noyes, although he has demonstrated it in a rather difficult and not too concentrated way, has presented forcefully and convincingly.

The early period of Roman society is characterized by Noyes as the "pre-property" stage. The social unit of that time is the *familia*, the household. Its head controls absolutely the whole group of persons and objects within the *familia* by force of his dominion over them. Legal relations exist only between him and the outside world. The life within the group is regulated by extra-legal habits. Legally everything belongs to the *pater familias* to the exclusion of any other *pater familias*. Here lies the historic origin of the individualistic Roman law theory, which holds that property is the exclusion of everyone but the owner from the enjoyment of the object that is owned.

In English feudalism the life within the family is transferred to the state. The law consists not of the relations of a *pater familias* to the outside world, but of the habits within the king's feudal family. This situation prevents the development of any exclusive property right. English property law regulates the landlord's and his tenant's concurrent relations to the land commonly enjoyed by them. It consists of various concurrent degrees of control over material objects. Here the way is wide open for the development of a law that imposes on the property owner restrictions that are in the interest of society.

Roman law supplies but a small part of the modern law, but mainly as a result of nineteenth century legal science it dominates legal theory. Thus legal theory still emphasizes the exclusive character of property rights. Actually, as Noyes shows, present-day property is not at all based on the individualistic notions of the Romans. But neither

<sup>1</sup> Cf. S. P. Simpson's review in *Harvard Law Review*, vol. 49 (1936) p. 1213.

is it any longer characterized by the early English legal relations of persons to objects. Instead it is a right running from one fund to another, fund being "a legally segregated organic grouping of property interests to which persons are attached by means of office" (p. 508). Thus the fund of the individual, of the estate, the trust fund, partnership funds, bankruptcy estates, corporate property, become the subject and object of property. Contract loses its Romanistic significance. Rights "in personam" are obsolete. Actually contract is but another relation between funds, a charge upon the debtor fund as a whole.

This thesis gives occasion for a new ingenious rearrangement of the entire network of economic relations, which can now all be comprised without difficulty under the heading "property." Particularly new in this rearrangement are the "credit debt" relation, redefining the old rights in person, and the "interests in quasi material objects," comprising objects of "property-like" character, such as memberships in organizations, value of going concerns, monopolies in law or in fact, or generally "exclusive processes, capable of being appropriated and protected, because, while immaterial, they are in fact capable of transfer" (p. 440).

Mainly in two respects have I found this work rewarding reading. First, Noyes succeeds in showing in a new and impressive way that property is not merely the right of a person over an object. It is an "institutional arrangement of society" (p. 9), which has been developed in a "historic process of piecemeal invention and gradual improvement in availability and control" (p. 501). This is not only a refutation of those forces that still consider property to be some natural and inviolable right. It is even more strongly aimed at the belief of those who hold that property could ever be abolished and replaced by a stroke of the pen.

Second, the book is a challenge to present-day property law theory. It shows the helpless obsolescence of our dogmatic implements in this field. Noyes finds new and strong expression for the condemnation of legal positivism, and joins the great line of sociological jurists that has been forming since the end of the last century. His emphasis on the incongruence between Romanistic property law theory and life reminds the reader of the opposition of German lawyers to their Civil Code and shows to what a degree Anglo-American theory has followed the unfortunate lead of the continental Romanists in this field.

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LASKI, HAROLD J. *The Rise of Liberalism, The Philosophy of a Business Civilization.* New York: Harper. 1936. 327 pp. \$3.

Laski has traced the origins and followed the developments from the Renaissance to the eighteenth century of those streams of thought — intellectual rationalism, religious liberalism, economic individualism, and political liberalism — which in the nineteenth century flowed together into the great river of liberal doctrine. The center and goal of his survey is that form of liberalism which I should be inclined to call right-wing, oligarchic and conservative.

The right-wing liberal calls himself a liberal because he has inherited that denomination from the liberals of a century ago. The task of the liberals of 1830 was to wrest wider political rights for the middle class from the conservatives of that day and to establish free trade and laissez faire in defiance of the age-old tradition of governmental intervention in economic life. Because they opposed the established order of their time they were liberal. The right-wing liberal of our time, on the contrary, can only with difficulty be distinguished from a dyed-in-the-wool conservative. There is by this time no innovation which he desires to wrench from the man who is more conservative than he. He is convinced that only under a system of private property can production attain its maximum of efficiency, the distribution of wealth be effected with the greatest degree of equity, and the maximum of well-being for the greatest number be achieved. At the bottom of his mind nestles the belief that property and political soundness go hand in hand, that the propertied classes are the custodians of civilization and therefore ought to be regarded as the trustees of society. His individualism no longer implies free trade, nor does it reject governmental intervention in economic life if such intervention favors the interests of the business man — interests which he is pleased to dub "production." The right-wing liberal upholds laissez faire only when the laissez faire of the business man is threatened with restrictions by government officials or by trade unions. In the countries where democratic institutions prevail he accepts them because he fears that any endeavor to supersede them might bring about greater evils than they produce. Nay more, he calls himself democratic as opposed to either fascists or communists. But he cannot fail to acknowledge that some at least of the institutions of democracy — universal suffrage and trade unionism, for example — embody a permanent threat to social stability. If, therefore, he lived under a constitution in which political rights were the privilege of a middle class oligarchy, he would take no step toward the realization of a re-

gime based on equality of political rights for all classes, and he admits in his more candid moments that a franchise based on a property qualification would be more convenient than universal suffrage, and that the pretensions of the trade unions should be checked. But since this is impossible he confines himself to opposing as much as he can within the framework of democratic institutions any increase in the political influence of the non-propertied classes and any basic reform in the social structure.

In that movement of thought which from the Renaissance to the Revolution prepared the way for European liberalism of the nineteenth century, the predominant place was held by right-wing liberalism. And if no other form of liberalism had existed outside of this, we could not raise any essential objection to Laski's book. In it Laski once more displays those gifts of vitality, insight and originality which make him one of the most brilliant political writers of our day. Even one who does not agree with all the details of his survey is obliged to rethink his own thought and to formulate his own convictions in a clearer and more coherent form. It is true that, while rich on the origins of English liberalism, Laski's information becomes rather thin for France, even sparser for Italy, and is entirely lacking for the other countries. But Laski has warned us that he did not intend to give us more than an essay on the subject, and no one has the right to demand of a writer more than he has intended. On the other hand, England may be considered as the cradle of economic and political liberalism. For this reason the scholar who for the seventeenth and eighteenth centuries concentrates his attention particularly upon England remains in the center of the current and may without serious inconvenience neglect the minor tributaries.

There also exists, however, in the history of modern political thought a left-wing, democratic and reforming liberalism, which assumed imposing proportions in the second half of the nineteenth century, and on the eve of the World War may be identified as *the* liberalism. The left-wing liberal does not acknowledge any necessary link between property and political wisdom, does not make a fetish of private property, cares very little about the laissez faire of big business, realizes that accumulated wealth has at its disposal too many means for the curtailment of the economic welfare and the political liberties of the little fellow, and maintains that equality of political rights and freedom of trade unionism must be zealously upheld if the lower classes are to be treated as human beings and not as cattle. He believes that private initiative should be restrained if necessary

in the interest of the whole community, and he is ready to advocate a great enlargement of the functions of the central and local government. But he is suspicious of bureaucracy no less than of accumulated wealth, refuses to accept with closed eyes the socialist and communist dogma that socialized enterprise would always yield results superior to those of privately owned enterprise, and prefers to a regime of systematic socialization a mixed regime of private enterprise and enterprises controlled by the government, central and local, or by free co-operative societies of producers and consumers. In this regime experience would demonstrate in each individual case the superiority of the one over the other form of enterprise.

Laski does not completely ignore left-wing democratic liberalism. In the last chapter of his book we find that "the conception of progressive taxation in the interest of the masses then [after 1848] became an essential part of the liberal idea" (p. 275); that there exists an "advanced liberalism" (p. 276) represented by "generous minds" like T. H. Green or Hobhouse (p. 296); that even in the early nineteenth century there existed a "fear of democracy which was, above all, the fear that its extension would destroy the safety of the owning class" (p. 290). But he does not make any clear distinction between democratic liberalism and conservative liberalism. He writes as if the English "radicals" of the early nineteenth century had never existed.

As a consequence, even in reconstructing the prehistory of liberalism from the Renaissance to the French Revolution, Laski almost completely overlooks those currents of thought which issue from the orbit of right-wing liberalism and enter into that of left-wing liberalism. To Rousseau he devotes only a few lines, from which we learn that "Rousseau stands apart from the other political writers of the eighteenth century" (p. 239), a statement which no doubt is correct but which leaves out of the picture the fact that Rousseau's left-wing liberalism, though standing apart from the other currents of thought and though intermingled in his incoherent mind with anarchist, communist, right-wing liberal and even absolutist doctrines, had a tremendous impact upon the movement of ideas during the second half of the eighteenth and the first part of the nineteenth century. Laski devotes ten well conceived and brilliantly executed pages of his essay to Edmund Burke, one of the fathers of right-wing liberalism, but does not even mention the name of Charles James Fox. Laski's book would be a sounder treatment of the subject if he had assigned to left-wing liberalism an adequate place in his survey, rendering it the justice which historically is its due.

To be sure, the Marxists make no distinction between right-wing and left-wing liberals. Whoever does not declare himself an uncompromising foe to all kinds of private property as far as means of production and distribution are concerned, is a conservative, a reactionary, a bourgeois, nay even a "petit bourgeois," which is the greatest insult that can be launched by a Marxist against a man. The left-wing liberals may find consolation for their misfortune in the thought that "on est toujours le réactionnaire de quelqu'un." Even the Marxian socialists today are branded by the Marxian communists of the strict observance as social-fascist, white guards of capitalism, and what not. As a matter of fact, when one witnesses the lamentable show that is being staged these days by the British Labour Party in connection with Spanish affairs, one feels a certain nostalgia for the old-fashioned "petit bourgeois" liberalism of Mr. Gladstone and asks oneself what humanity has gained by the passing of the scepter from a "petit bourgeois" liberal like Sir Henry Campbell Bannerman to a Marxian socialist like Major Atlee.

GAETANO SALVEMINI

*Harvard University*

UTLEY, FREDA. *Japan's Feet of Clay*. New York: Norton. 1937. 392 pp. \$3.75.

This book, based on tremendous material and giving more information than any other volume on present conditions in Japan, contains no factual statement that is not correct and still offers a distorted picture, painted in the colors of inimical criticism, lacking entirely that sympathetic understanding of cultural values without which it is impossible to give an "objective" representation of such a complex problem as a people in crisis.

The main thesis of the book is that the remnants of feudalism, in combination with industrial monopolies and aggressive militarism, keep the Japanese peasantry under an iron heel and the workers under a system of wage slavery, while these enforced efforts of the whole working population produce scarcely the bare necessities for the masses. This is due to the poverty in raw materials, the heavy burden of taxation and the lack of capital for farming and small scale industry. This poverty again is the consequence of ruthless exploitation: a small group of industrial millionaires, the landlords and the army extort whatever they can. Though everything that is said about the income of the farmers and the workers is correct, and is in fact drawn from

official Japanese sources, some of the implications and interpretations do not hold true. I shall content myself with discussing two main points: the agricultural situation and the question of Japan's spiritual inheritance.

The author believes that the scanty returns per capita of the agricultural working population are due to the lack of fertilizers and capital investments; furthermore she believes that with more capital available for reclamation of land and for ways of transportation the area of fertile land could easily be increased. This opinion is hardly justified, in view of the considerable reclamation of land between 1890 and 1930, which probably included a good deal of submarginal land. The density of the agrarian population is after all a fact which cannot be denied. The comparison (p. 113), which declares the crop per acre to be 50 per cent higher in Italy and 90 per cent higher in Spain, is misleading unless one knows how the average quality of the soil cultivated in rice compares in these countries: whereas in Spain only 40,000 hectares and in Italy about 140,000 are under rice cultivation, the area in Japan is 3,165,000 hectares, which indicates that in southern Europe only the very fertile soil is used for rice crops — probably to a greater extent level fields, with excellent irrigation (Po valley). And the production per acre in Japan, according to figures which Dr. Utley herself gives, is 100 per cent higher than the returns in Siam and the Dutch Indies. It may well be that agriculture is not at present in an optimum state in Japan, but to apply the "economic principle" would probably entail an increase in the average size of the farms and the abandonment of submarginal land, with the result of creating an agricultural surplus population. Even abolishing the rents paid to the landowners and reducing taxes on land would probably not increase the food supply but would rather make for higher expenditures of the farmers, whose income would be somewhat increased. In other words, though changing the distribution of national income, it would hardly be likely to increase the national dividend.

Dr. Utley's discussion of agricultural problems shows that without hesitation she applies western standards in criticizing the economic and social fabric of Japan. The comparison with western institutions and standards is indispensable for understanding Japan, if one is a westerner, but this comparison should not lead to a wholesale judgment of Japan on the basis of our concepts. This book is full of indignation because the Japanese did not establish a democratic system. Certainly the world situation would then be less gloomy than

it is today; but the fact that so many elements of the feudal system were retained, and that the power of the military and even of the great rich families is so overwhelmingly great, only proves that the ideas of the "celestial empire" have a greater appeal to the Japanese people than the author wants us to believe. Though there are socially radical movements there are on the other hand large masses of the population which are easily aroused by any nationalistic move; that the "moderates," as the author herself states, have the same goal as a military dictatorship would have, proves again how widely the imperialistic political aspirations are shared, and, we may add, no less by the farmers than by the urban middle class. To a great extent even the socially radical movements are not opposed to this imperialism, though they might revolt against the regime if the army were defeated. Thus, it seems to me, the author underestimates the strength and the psychological influence of myth and tradition on the average Japanese mind, and does not see that a destruction of this old world — outdated and flimsy as it may look to western eyes — would not westernize Japan but would reduce it, culturally, to a shambles. Probably it has never occurred to Dr. Utley that the aggressive character of Japanese policy may be due to a mental situation in which an obsolete position must be defended desperately, even if there is no hope of holding it.

After having read Dr. Utley's book one is struck by the pessimism which it suggests. She believes that "perhaps Japan may one day forge for herself feet of iron instead of feet of clay" — if she is allowed to tighten her grip on northern China and to get there under control the natural resources which she lacks at home. This prophecy overlooks the fact that even then the Japanese economic system would remain weak, unable to resist first-rate powers in a major war, and that China, once industrialized, is bound to develop a national movement which in the long run would not stand the domination of the country by a foreign power. That is, I think, the inherent weakness of Japan's position. On the other hand there is, in the abstract, no reason why Japan, even with the handicaps of scanty natural resources and a large population, should not build up, under a peaceful regime which would abandon plans for conquest, an industrial system that could with increasing efficiency gradually improve the economic situation and integrate Japan economically with China and Siberia, which are her "natural" complements for a prosperous Far East.

EMIL LEDERER

HORNEY, KAREN. *The Neurotic Personality of Our Time*. New York: Norton. 1937. 299 pp. \$3.

This book, written by a psychoanalyst but not only for physicians, amounts to a most interesting revision of some of the fundamental conceptions of the Freudian orthodox theory. Dr. Horney feels that orthodox analysis, "in spite of its seemingly boundless potentialities," has "come into a blind alley" (p. 21). The reason for this she finds in Freud's "disregard of cultural factors" in the structure of neuroses. She attempts therefore to enrich, and to an extent to replace, the biological and physiological foundations of analytic thinking by emphasizing the cultural and sociological factors.

The author's viewpoint necessitates a definition of those main factors of our own culture which are instrumental in building up neuroses. This definition is given as follows: "Modern culture is economically based on the principle of individual competition" (p. 284). Competition and hostility are found in the school and family, and the father-son rivalry of the Oedipus situation is only one of the many competitive situations of our culture.

We may state our misgivings as to whether this generalization is permissible and whether it is not somewhat one-sided to judge our *entire* culture in the light of Wall Street; the importance of the factor of competitiveness is thereby not disputed but may have to be restricted.

On this basis a neurosis is, very briefly, built up as follows. Competition brings about hostility. Hostile impulses cannot always be freely expressed, are often socially unacceptable and may also endanger the security of the very person who experiences them. They may therefore be repressed into the unconscious and be split off the personality. Yet there, being strong emotional charges, they cause unexplainable tension which appears as anxiety. If, in order to find some explanation for this anxiety, it is "projected" and some outside cause made responsible for it by the neurotic, it will in turn provoke a hostile defense attitude and the vicious circle is complete. According to Dr. Horney, the hostility-anxiety mechanism is at the bottom of all or almost all neuroses, regardless of the differences in symptomatology. Dr. Horney does not think that repressed infantile sexual wishes are at the bottom of all neuroses. She believes rather that under certain unfavorable conditions in sensitive children a "character attitude" may be set up which lasts and develops and implies the hostility-anxiety mechanism with its various neurotic behavior patterns; if then such a person, as an adult, happens into a difficult actual situation, this

character attitude may lead him into the neurotic reaction. In this way the actual present of the neurotic receives a great deal of attention which, in our opinion, it certainly needs and deserves.

The chapter in which are listed some of the unfavorable circumstances in childhood that may lead to the development of a neurotic attitude deserves special mention. We find: lack of warmth and affection; undue spirit of competitiveness; parents who do not fulfil their promises, who do not allow the child to grow up in a free, independent and courageous attitude but constantly interfere with their own anxiety, overprotection and exaggerated desire for obedience, or who keep their children in ignorance. For Dr. Horney such factors outweigh the merely sexual traumata. Dr. Horney rejects the "doubtful generalization" of the Oedipus situation.

These revisions of fundamental parts of the analytic theory entail many special consequences and new interpretations that cannot be mentioned here. There is no doubt that this book is full of striking observations and warm common sense. Notwithstanding the fundamental misgivings that this writer has against the analytic concepts and mechanisms and the underlying psychological concept of man — misgivings which hold true also against very important points in Dr. Horney's book — he recommends this book as a sign of a development in psychiatry which seems healthy and has certainly not reached its end.

ERWIN LEVY

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LEWIS, JOHN D. *The Genossenschaft-Theory of Otto von Gierke. A Study in Political Thought.* [University of Wisconsin Studies in the Social Sciences and History, no. 25.] Madison. 1935. 185 pp.

This introduction to Gierke's work is a valuable contribution to the growing interest Gierke is finding in the Anglo-Saxon world.<sup>1</sup> Of especial importance is the appendix, which contains an excellent translation of some selected chapters from different works containing his basic theoretical position. The presentation of the theory is clear and enlightening, and would have been perfect if the author had not been bound by his goal of approaching Gierke's ideas from the viewpoint

<sup>1</sup> Cf. F. W. Maitland's translation of a part of *Das deutsche Genossenschaftsrecht* as *Political Theories of the Middle Ages* (Cambridge, Eng. 1900), and Ernest Barker's translation of parts of the same work as *Natural Law and the Theory of Society* (Cambridge, Eng. 1934). A translation of *Johannes Althusius und die Entwicklung der naturrechtlichen Staatstheorien* will be published soon.

of political thought. This approach is the more astonishing because Lewis knows very well that Gierke's political theory is only a by-product of his basic social and juristic theories, which are important achievements in the philosophy of law.<sup>1</sup> It is Gierke's historical achievement to have conquered the abstract and atomistic social theory of the law of nature and to have suggested a new organic social theory, starting from the philosophical presuppositions of Fichte's idea of the concrete value-totality (*Wertganzes*). Hence it should be pointed out how profoundly Gierke's work influenced the theory of a social and socialistic law which Gurwitsch has tried to develop.<sup>2</sup>

<sup>1</sup> Gurwitsch has emphasized the philosophical significance of Gierke's work and the influence exerted on Gierke by the moral philosophy of Fichte's later works. Cf. Gurwitsch, Georg, "Otto von Gierke als Rechtsphilosoph" in *Logos*, vol. 11 (1922-23) pp. 86-132, and *Fichtes System der konkreten Ethik* (Tübingen 1924).

<sup>2</sup> Gurwitsch, Georg, *L'Idée du Droit Social* (Paris 1931), and *Le Temps Présent et l'Idée du Droit Social* (Paris 1931). Cf. also Sinzheimer, Hugo, "Eine Theorie des sozialen Rechts" in *Zeitschrift für öffentliches Recht*, vol. 16 (1936) pp. 31 ff.

ALBERT SALOMON

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